

Adm. ... \$1.10	Indones. ... Rp 2700	Portugal ... Esc 200
Belgium ... \$1.35	Japan ... ¥ 135	S. Africa ... Rand 1.50
Canada ... C\$1.00	Jordan ... Pds 500	Spain ... Ptas 160
Denmark ... Dkr 6.80	Lebanon ... L.L. 1500	Switzerland ... Sfr 2.20
France ... FFr 6.50	Malaysia ... M. 4.25	Taiwan ... NT 85
Germany ... DM 2.30	Marocco ... Dir 2.50	Thailand ... Baht 50
Greece ... Dr 340	Myanmar ... Ky 12.50	U.S.A. ... \$1.00
India ... Rupee 15.00	Philippines ... P. 20	

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,653

Wednesday June 19 1985

D 8523 B

U.S. telecoms: after the AT&T divestiture, Page 14

## World news Business summary

### Sri Lanka launches peace initiative

Clashes between security forces and Tamil extremists which have engulfed the south Asian island of Sri Lanka for nearly two years may halt in the next few days.

This would be the first stage of a peace initiative launched with the help of Indian Prime Minister Rajiv Gandhi who recently held a summit in New Delhi with Sri Lankan President Jinnas Jayawardene. Rajiv's vital role, Page 15

### Beirut camps accord

The Lebanese Shia Muslim Amal movement and the Damascus-based Palestine National Salvation Front signed an agreement to end 27 days of bloody fighting in Palestinian refugee camps in Beirut.

### Afghans destroy jets

Saboteurs destroyed about 20 jet fighters belonging to the Afghan Air Force at Moscow's largest and best defended airbase in Afghanistan, Western diplomats said. The attack earlier this month seemed to have begun the work of Afghans at the base.

### Soviet rocket tests

The Soviet Union warned foreign ships and aircraft to avoid an area of the Pacific Ocean where they could be in danger from rocket tests.

### French rail strike

French railway unions said they were calling a one-day strike which would disrupt the running of over half of France's rail network.

### Polish church talks

Poland's Roman Catholic Primate, Cardinal Joseph Glemp, conferred with Communist Party leader General Wojciech Jaruzelski for the first time since January 1984. Page 2

### Spanish killing

A Spanish police corporal was shot dead in the northern Basque town of Santurce. Police said his murder bore the hallmarks of the Basque separatist guerrilla group Eta. Page 2

### Dutch pressure

The Netherlands Government proposed that Dutch companies operating in South Africa should be legally bound to give black workers equal treatment to whites.

### S.Africa accused

The U.S. accused South Africa of trying to sabotage U.S.-owned oil installations during a raid into Angola last month.

### New U.S. ambassador

U.S. Assistant Secretary of State Richard Burt was named ambassador to West Germany, despite apparent misgivings in Bonn. Page 3

### England win

England's cricketers opened the six-match series with a five-wicket win at Hedingley. Australia 331 and 324 (W Phillips 91; E Ambury 5-82), England 333 and 123-5.

### U.S. food deal

Washington and Moscow have concluded a new deal on agricultural co-operation similar to the one broken off by the U.S. in 1980 in protest against the Soviet intervention in Afghanistan. Page 2

### China reshuffle

China announced a government reshuffle, bringing in technocrats to head key ministries connected with economic development and putting a vice-premier in charge of education. Page 16

### Policeman killed

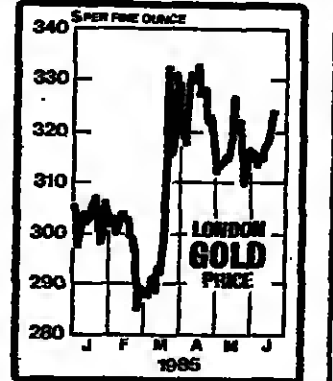
An Ulster policeman died near Kinawley, Northern Ireland, when IRA terrorists detonated a 1,000 lb bomb under his car.

### Tenneco to buy Goodyear gas lines

TENNECO, the diversified U.S. energy and industrial conglomerate, is strengthening its position in the natural gas pipeline industry with the \$500m acquisition of Goodyear's pipeline and other gas activities in Louisiana. Page 17

TOKYO shares lost ground led by selling of blue chip and biotechnology stocks. The Nikkei-Dow market average fell 28.17 to 12,741.11. Page 42

LONDON trading remained subdued, although gilts received support. The FT Ordinary share index closed 2.5 lower at 955.50. Page 42



GOLD rose \$5.50 an ounce on the London bullion market to finish at \$324.75. It was also higher in Zurich at \$323.75. In New York the Comex August settlement was \$350.50. Page 34

WALL STREET at 3pm the Dow Jones industrial average was 4.14 higher at 1,902.53. Page 42

STERLING was higher in London, gaining 2 cents against the dollar to finish at \$1.985. It also rose to DM 3.435 (DM 3.415), SwFr 3.3 (SwFr 3.2925), FFf 12.025 (FFf 11.9575) and Y32.0 (Y31.425). The pound's exchange rate index rose to 80.5 from 79.7. Page 35

DOLLAR fell in London, closing at DM 3.428 (DM 3.415), SwFr 3.335 (SwFr 3.325), FFf 12.025 (FFf 11.9575) and Y32.0 (Y31.425). The pound's exchange rate index rose to 80.5 from 79.7. Page 35

ITALY expressed its concern to the U.S. about pending U.S. trade protection measures which could hit Italian exports of shoes and pasta.

SINGAPORE stockbrokers are angry over legislative proposals which, if enacted, would bring them under supervision of the Monetary Authority of Singapore, the Government's powerful regulatory agency for the island's state banks. Page 19

EUROBOND market was hit with a further rush of floating rate notes, including a \$400m deal for Belgium and a \$250m issue for Banque Nationale de Paris. Page 17

SONY, the Japanese electronics group, lifted net profits in the first half 8.8 per cent to Y38.11bn (\$153.2m) against Y35.01bn, on turnover 11.8 per cent ahead at Y679.88bn. Page 19

HONEYWELL, major U.S. computer manufacturer, said it expects second-quarter earnings to decline "sharply" from the \$1.70 per share earned in the second quarter last year.

NORSK HYDRO, the Norwegian industrial and energy group, plans to buy a majority stake in Cofaz, the French fertilizer company, through purchases from two French concerns which together hold 80 per cent of Cofaz's shares. Page 17

CUMMINS ENGINE, the leading U.S. manufacturer of diesel engines for heavy duty trucks, is to cut 2,200 jobs over the next few weeks. Page 17

IBM, the world's largest computer maker, increased the pressure on its rivals with a raft of price cuts and new product announcements. Page 17

UNION BANK of Hong Kong, one of the territory's medium-sized banks, reported a 92.5 per cent slide in 1984 net earnings to HK\$2.8m (\$360,000). Page 19

## Cut in prime fuels hopes of fall in U.S. discount rate

BY STEWART FLEMING IN WASHINGTON AND PAUL TAYLOR IN NEW YORK

MORGAN Guaranty Trust, the large New York commercial bank, cut its prime lending rate from 10 per cent to 9 1/2 per cent yesterday, a move that took the prime rate of a major U.S. bank back into single figures for the first time since September 1978.

The move, quickly mirrored by other leading banks, spurred renewed speculation on Wall Street about a cut in the Federal Reserve's discount rate from its current level of 7 1/2 per cent.

The reductions follow significant declines in market interest rates in recent weeks which have lowered the cost of funds to the banks themselves and which Wall Street sees as evidence of a continuing effort by the Federal Reserve to ease its monetary policy in the face of the weakness of the U.S. economy.

Morgan Guaranty's reduction in the benchmark corporate lending rate, coupled with a further decline in short-term U.S. rates, helped buoy the recent bull market rally in bond prices while sending the dollar tumbling on the foreign exchange markets.

In the credit markets, the key Treasury bill bond price had gained a further 1/4 of a point by lunchtime, sending the yield tumbling to 10.25 per cent. Equity prices also edged higher in response to lower short-term rates, while in the New York foreign exchange mar-

kets the dollar came under renewed selling pressure, falling in early active trading to DM 3.328. Sterling climbed back to \$1.93 in New York after closing at \$1.9265 in London.

The dollar's decline reflected the now widespread belief on Wall Street that a further Fed discount rate cut is imminent. Signalling this, U.S. money market rates fell again yesterday with Treasury bill rates declining by up to 10 basis points.

Meanwhile, the overnight Fed funds rate, often viewed as a key indicator of the U.S. central bank's intentions, dropped to 6.75 per cent in early trading before the Fed stepped in to drain reserves through overnight matched sales.

The Fed's action, which came with the funds rate trading at 6 1/2 per cent, was quickly brushed off by the markets, which generally viewed it as an attempt by the Fed to slow the sharp decline in rates, rather than an indication that an early discount rate cut was being ruled out.

Mr Brian Faber of Salomon Brothers described the Fed's operation as an overt "steady-state" action, designed to warn the market away from expecting a full point reduction in the current 7.5 per cent discount rate, while nevertheless signalling its acceptance of 7 per cent Fed funds rate which would imply a more modest half point reduction in the discount rate.

Since the previous prime rate cut and Fed's last discount rate reduction, in mid-May, money market rates and bank funding costs have continued to tumble - paving the way for the long-expected prime rate reduction yesterday.

Bank certificate of deposit rates have declined by 80 basis points over the past month while three month T-bill rates have dropped by three quarters of a full point. Meanwhile corporate treasurers have watched long-term rates tumble to the lowest levels for five years and rates on commercial paper, an increasingly popular corporate alternative to short-term bank borrowings, fall by about 50 basis points.

Among the other major banks to match Morgan Guaranty's move yesterday were Bankers Trust, Citicorp, Chemical, Chicago's Continental Illinois and BankAmerica on the West Coast.

Yesterday's half point cut was the latest in a series of reductions which have steadily brought the lending rate down from its 1984 peak of 13.5 per cent last August.

The move by Morgan Guaranty followed the announcement by the Commerce Department yesterday of a surprising slump in housing starts in May.

Money markets, Page 35; Stock markets, Page 42

## U.S. set for long wait over hijack hostages

By Reginald Dale in Washington and Tony Walker and Nora Boustany in Beirut

THE U.S. Government was yesterday resigning itself to the possibility of a long ordeal over the 30 to 40 American hostages still held in Beirut after Friday's hijacking of a TWA airliner by Shia terrorists.

The hijackers are demanding the release of more than 700 Shias held in an Israeli jail. Mr Nabih Berri, leader of Amal, the Shia militia, appeared yesterday to the U.S. to put pressure on Israel to end the crisis.

In Jerusalem it was again stressed that only a direct appeal from Washington would lead Israel to consider releasing the prisoners.

The White House welcomed yesterday's release of three of the captives, including two Americans, by Mr Berri who has assumed responsibility for the hostages. But in some of the strongest language it has yet used, it condemned the piecemeal nature of the release as "unjustified behavior in its worst form."

Mr Larry Speakes, the White House spokesman, repeated that Washington was not asking Israel to free the Shia prisoners. He also denied reports that the U.S. had asked the International Red Cross to negotiate with Israel for the prisoners' release.

Asked if he foresaw the crisis dragging on for a long time, Mr Robert McFarlane, Mr Reagan's national security adviser, replied: "I am afraid that is right." Mr Berri had earlier said that the remaining hostages could be freed in 24 hours if the U.S. put pressure on Israel to liberate the Shia detainees.

Mr Berri complained yesterday that Washington had said and done nothing to facilitate the release of the hostages. He accused the U.S. of being unprepared to exert pressure on Israel.

As he spoke, American warships, including the aircraft carrier Nimitz, moved into East Mediterranean waters off the coast of Lebanon.

Mr Berri has threatened to abandon the American passengers to the hijackers if no progress is made in negotiations for the release of the Lebanese Shias held in Israel.

The Shia leader accused Israel of violating the Geneva Convention by moving prisoners of war from southern Lebanon across the international border. The move was criticised when it took place in April.

Continued on Page 16  
Israel's self-inflicted crisis, Page 4

## Philips seeks tough action against Japan

BY GUY DE JONGHERES IN LONDON

PHILIPS, the large Dutch electrical and electronics group, yesterday called for tougher European trade measures against what it claimed was Japan's goal of attaining a "monopoly position" in some high-technology products, notably consumer electronics.

Mr Gerrit Jeelof, executive vice-president of Philips, told the Financial Times World Electronics Conference in London that in certain sectors where Japan competes unfairly, the EEC should insist that more than 80 per cent of the value of products sold in Europe was added locally.

His proposal immediately drew fire from Mr Jacques Stern, chairman of Bull, the state-owned French computer company, who said it was essential for the health of European industry that Europe's markets be open to outside competition.

"I am not in favour of any protectionism," Mr Stern said. "It could give the illusion that it would help European industry in the short term but would condemn it in the long term. I am for an open market with free competition."

Mr Jeelof said that, in consumer electronics, Japanese exports to the EEC were 385 times larger than its imports from the EEC. Defensive action must be taken against a Japanese "invasion" which aimed at creating "selective monopolies" and threatened the survival of important parts of the European electronics industry.

"One way of achieving this is to ensure that in strategically important sectors where Japan pursues a policy of one-way trade, a sufficiently large share of the European market is for goods with a 'Made in Europe' label," Mr Jeelof said.

"This label must only be awarded to products with a locally added value of over 60 per cent," he said. Japanese-owned plants in Europe could be included, provided they met local content rules. That would help maintain employment in key sectors.

Existing Community rules do not specify precisely how much of a product's value has to be added locally to qualify as being of European origin, but the generally accepted yardstick is a minimum of 45 per cent.

Under strong pressure from Philips and the French Thomson group, the European Commission recently proposed and increased from 8 per cent to 14 per cent in the EEC tariff on video cassette recorders, at a cost to European consumers of about \$500m a year.

Philips plans deal in China, Page 3; Conference report, Page 12

## Britain attacks Brussels over pollution controls

BY ANDREW GOWERS IN PARIS

BRITAIN AND the European Commission clashed openly yesterday on the controversial question of pollution controls, in a foretaste of what is expected to be a full-scale EEC row over vehicle exhaust emission next week.

Mr Patrick Jenkin, Britain's Environment Secretary, accused Mr Stanley Clinton Davis, the UK's junior EEC commissioner responsible for transport and the environment, of paying insufficient attention to the views of industry in drawing up environmental legislation. Mr Clinton Davis immediately rejected the charge.

The sharp exchange, which Mr Jenkin said reflected a difference between the Commission's "authoritarian" view of environmental legislation and an approach based on consensus such as is practised by Britain and the Netherlands, formed part of a general policy discussion at a meeting of environment ministers from the 24 member states of the Organisation for Economic Co-operation and Development (OECD) in Paris.

But it comes against the background of a worsening dispute over controls of vehicle exhaust emissions between individual EEC states and the Commission, which is likely to reach a new peak at a meeting of Community environment ministers in Luxembourg on Monday. Mr William Waldegrave, the junior British Environment

Minister, will be lobbying hard on the subject for the remaining two days of the meeting.

The argument stemmed from the Commission's announcement earlier this month of technical standards for vehicle emissions which are said by Britain, France and Italy to undermine an earlier compromise agreement on the subject reached by all EEC ministers.

Its outcome is of crucial importance for European car manufacturers in deciding whether to invest further in the development of so-called "lean burn" engines or to fit their vehicles with potentially costly three-way catalytic converters to

its decision to restructure represents a more fundamental effort to make itself less vulnerable to share raiders.

Goodrich intends to sell about \$500m of its assets during the reorganisation. Mr John Ong, chairman, said yesterday. Although Goodrich would emerge as a smaller company, it would also become "much more" profitable, he added, because these assets produced an operating loss last year of about \$22m while generating a quarter of the group's sales.

The write-off will reduce by about a third Goodrich's net worth of a little over \$1bn and cut equity per share to about \$32 from \$48 at the end of the first quarter of this year. In 1984, Goodrich made net profits of \$67m on sales of \$3.4bn, up from earnings of \$10.3m on revenues of \$3.2bn in 1983.

The main cuts are to occur in the group's polyvinyl chloride (PVC) division, which is claimed to be the world's largest manufacturer of PVC compounds. More than half of the

## Goodrich to write off \$365m in sweeping reorganisation

BY TERRY DODSWORTH IN NEW YORK

B. F. GOODRICH, the third largest U.S. tyre manufacturer, is to write off \$365m as part of a sweeping reorganisation programme aimed at slashing plastics production and slimming down its industrial division.

Goodrich's move follows a number of similar projects at several other large U.S. companies, such as ITT, Textron and Beatrice. The main intention of these restructuring efforts has been to streamline companies around their strong points, while raising cash, improving operating performance and lifting their share prices through divestments.

One of the incentives for action at Goodrich may have been an embarrassing encounter last December with Mr Carl Icahn, the Wall Street investor, who forced the company to buy out his 9.5 per cent shareholding at a substantial premium - one of the most clear-cut examples of the much-criticised "greenmail" technique.

Since then, Goodrich has adopted certain anti-takeover devices, but

\$365m charge will be related to the write-downs in this sector, where resin capacity will be reduced by around 10 per cent by the shutdown of the facility in Long Beach, California.

Goodrich is also planning to sell its chemicals facility at Convent, Louisiana, where it makes a variety of products including PVC feedstock.

In the industrial division, the group is intending to sell its industrial construction and mining products activities, which were acquired in 1978. The tyre business is to be further streamlined in a way that will reduce assets employed in this sector by a quarter.

"Our PVC and tyre operations will become substantially more profitable when this restructuring is complete," Mr Ong added. "And with much of the cash we receive from divestments and from lower working capital requirements, we will be able to reduce debt and expand our more profitable businesses."

Goodyear sells gas pipelines, Page 17

# Banking Premises

City of London ☎ 01-638 901  
22 Billiter Street, EC3, 60,000 sq.ft. opposite Lloyds

West End ☎ 01-493 5566  
83 Pall Mall, SW1, 3,000-19,000 sq.ft. air conditioned

Manchester ☎ 01-405 6944  
The Atrium, Banking Hall/Offices 960/12,110 sq.ft.

Paris-Etoile ☎ Paris 563 05 50  
8 Rue Cimara, 1,100m² self contained superb refurbishment

Paris 8<sup>e</sup> ☎ Paris 563 05 50  
105/109 Faubourg St. Honore 1,320m² Banking Hall, 1,150m² offices

Frankfurt ☎ Frankfurt 23 00 76  
DGZ Building, Mainzer Landstrasse. Superb offices 2,028m²

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## EUROPEAN NEWS

## Soviet Union and U.S. to resume farm collaboration

BY PATRICK COCKBURN IN MOSCOW

THE SOVIET UNION and the U.S. are to resume agricultural co-operation after six years, Mr Daniel Amstutz, the U.S. Agriculture Under-secretary, said here yesterday.

The agreement to co-operate in the exchange of information, research and the application of technology does not cover grain sales. It does show, however, that the U.S. is keen to ensure that the Soviet Union remains a significant purchaser of its grain: it bought 20m tonnes last year.

Co-operation has been established on 20 topics in 1985-86. Each country will send 11 teams of scientists to the other, and the U.S. will receive more information on Soviet crops, "though not as much as we would like," Mr Amstutz said yesterday.

This does not necessarily mean greater warmth in relations between the superpowers which have worsened significantly since January. Yesterday's agreement is primarily

the result of an initiative by President Ronald Reagan last year to increase bilateral co-operation in a number of limited areas.

Soviet grain purchases are expected to decrease over the next year because of a larger domestic harvest which the U.S. Department of Agriculture estimates will reach 198m tonnes this year compared to less than 175m tonnes in 1984. One agricultural specialist in Moscow said yesterday that the final figure might total about 200m tonnes.

Much will depend on the weather which is cool at present in the north of the country and very hot in the plains of Kazakhstan in the south.

Agriculture was heavily criticised by Mr Mikhail Gorbachev, the Soviet leader, in a speech last week in which he said that the return on capital investment in this sector—one-third of all Soviet capital investment—was very poor.

## Europe aims for military high-tech collaboration

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

THE DEFENCE ministers of 13 European nations agreed in London yesterday to launch a co-operative research programme in five specific areas of advanced technology with military applications.

The areas selected by members of the Independent European Programme Group, the purpose of which is to promote European arms co-operation, are: microelectronics; high strength lightweight materials; compound materials; image processing; and conventional warhead design. Projects will be funded jointly on a case by case basis.

Mr Jaco de Ruiter, the Dutch minister and chairman of the group, said at a news conference that this was the first time that multinational defence research co-operation had been approached in such a thorough fashion.

Some 30 technological areas have been identified by the IEPG as fields for possible co-operation. The ministers have expressed firm determination to make further progress in this

area, actively involving industrial companies, research establishments and governments, according to the communiqué issued after the 3-day meeting.

As a step in this direction, they have accepted a proposal by Mr Michael Heseltine, the British Defence Minister, to host a conference in London of directors of national research and development establishments to discuss the more efficient use of European facilities and capabilities.

Clearly with an eye on the French-inspired Eureka programme for European technological co-operation, the ministers said that, in working out their technological programme, account should be taken of parallel developments in Europe.

The ministers also decided that, in future, all their meetings would take place at ministerial level, so as to keep up the momentum of European arms co-operation. At the same time, they emphasised the need to strengthen the dialogue between Europe and the U.S.

## Unrest in Spanish police

BY DAVID WHITE IN MADRID

THE HEAD of Spain's national police in the Basque region is reported to have tendered his resignation, in the latest stage of a long-running conflict over reorganisation of the police force.

The reported move by Lieutenant-Colonel Paulino Garcia Diaz and several other senior officers seconded from the army to the police, comes during a resurgence of violence in the region, in which the National Police has been the prime target of shootings and bombings by the ETA separatist organisation.

A member of the Civil Guard, a paramilitary force separate

from the National Police, was shot dead yesterday at Santurce. The latest bout of unrest was provoked by the publication of measures by the Interior Ministry setting up a new internal organisation in the 50,000-strong National Police. Although officially a civilian force, it includes almost 300 army officers. The new organisation keeps military officers in their posts but places them under chiefs of the plain-clothes superior police corps.

The two forces are due to be merged by the end of next year under a plan by the Socialist Government to "demilitarise" the National Police.

## Gibraltar yard at risk

BY JOSEPH GARCIA IN GIBRALTAR

THE NEW Gibraltar commercial shiprepair yard Gibraltar is "losing money heavily" and if the present rate of loss continues, the company could go out of business before the end of next year, its managing director, Mr Brian Abbott, says.

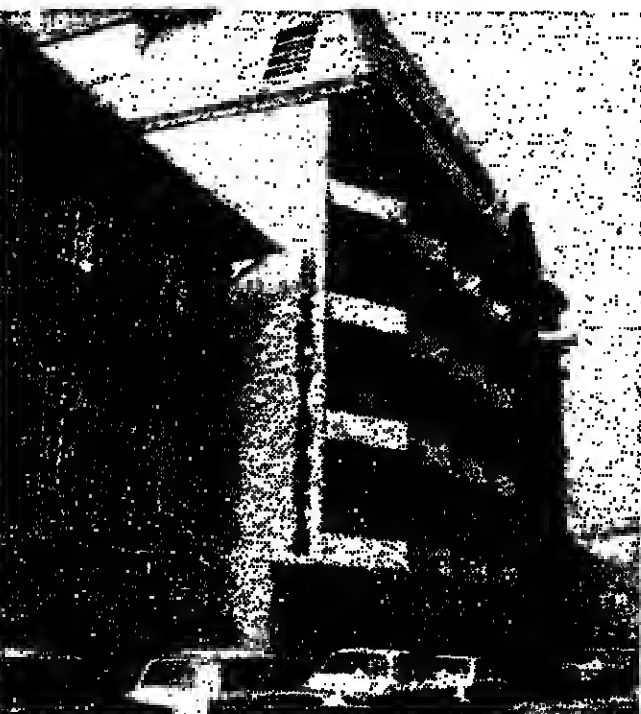
The company was created with £28m of British aid to replace the old naval dockyard which closed at the end of last year.

In its first three months of operation, the company had spent about half the aid money, which was made available for refurbishment and to meet running costs as necessary in its early years of operation. Britain has also guaranteed £14m-worth of naval contracts.

In a letter to the workforce, Mr Abbott says poor productivity is one of the reasons why the company is losing money. He adds that productivity, which has been improving, is still below the level other yards regard as normal.

The company states that it cannot afford a pay claim by the local branch of the Transport and General Workers Union, saying its hourly rates are already the highest in Gibraltar.

Gibrepair wants to employ more workers to reduce output levels, described as "too high." It is trying to recruit workers in Britain and Spain, but there is union opposition to Spanish workers being taken on.



## IRI chief unrepentant on sale of subsidiary

By James Burton in Rome and Alan Friedman in Milan

PROFESSOR Romano Prodi, chairman of the Italian state holding company IRI, said yesterday that he would carry on in his job despite the "deep wound" IRI has suffered in the affair concerning the privatisation of its subsidiary, SIME.

"I am going to press on," he said. "I am not resigning because in the end you have to see who wins. Victory means the defence of IRI's strategy to sell its subsidiary in the most correct and transparent way possible."

His position as chairman of the state holding company, which last year had sales of more than £15bn, has been threatened in the past few weeks by humiliating reverses in the attempt to sell off SIME, a holding company for IRI's interests in the food industry.

In late April, Sig Prodi agreed to sell SIME to Buitoni, a private sector foods group controlled by Sig Carlo J. Benedetti, for £497m (£200m). But the deal ran into serious political opposition and was never ratified by the Government. Instead counter offers were received offering more money than Buitoni and an informal auction began which Sig Prodi was powerless to stop.

Finally last week, IRI recommended to Sig Clelio Darida, Minister of State Shareholdings, that he accept the Buitoni offer. But the Minister replied by scrapping the deadline that had been set and telling IRI to start considering bids all over again.

It was confirmed yesterday that Sig Darida has instructed his lawyers to take legal action in an effort to compel IRI to honour its agreement. The action could come before magistrates in the next few days. Buitoni has the option of suing IRI for damages if the agreement is not honoured.

Sig Darida yesterday attended the start of a large conference called by Sig Prodi to review the general state of IRI. He said he had the utmost confidence in Sig Prodi who had acted correctly.

He blamed what had happened on the novelty of the situation and on the contradictory nature of the rules on privatisation.

## Police search Ambrosiano director's homes

By Our Milan Correspondent

MILAN MAGISTRATES investigating the 1982 collapse of Banco Ambrosiano have ordered a police search of the houses and offices of Sig Luigi Lucchini, president of the Confindustria employers' association. The search by the Guardia di Finanza, or fiscal police, was carried out because of suspicions that the 66-year-old Sig Lucchini might have illegal foreign exchange holdings outside Italy.

The magistrate recently visited the houses of the over-60s network of Banco Ambrosiano. It is not known whether this visit was related to the investigation of Sig Lucchini. He was a shareholder in the failed bank and a director of La Centrale, the Ambrosiano financial subsidiary.

On Sunday night and Monday morning Italy's fiscal police entered and searched Sig Lucchini's home in Brescia, the home of his son also in Brescia, the offices of his hotel company in Brescia, his offices at Confindustria in Rome and his holiday homes at Sanremo and Cortina. Sig Lucchini's reaction to the searches was surprise and astonishment. The Confindustria president, who has played a key role in negotiations over the Scala Mobile bank, indicated that he had "a clear conscience."

The stoppage—which OFS had planned to last 12 hours—was in support of a drilling rig strike by members of an affiliated union, ROP. Because it hit production rather than exploration, its consequences for Norway's economy were more serious and immediate than the drill rig strike.

What I want now for my hotel is a yacht port over there," Mr Zoltan Palmi said, gesturing in the direction of the nearby Danube, "and a heliport just here," pointing to a vacant lot beside his newly finished Victoria Hotel, the first medium-sized private hotel to be opened in Eastern Europe since the 1980s.

Quite why the rich of the world should want to sail their yachts or fly their helicopters to Budapest just to stay in his modest, \$36 a night hotel, Mr Palmi does not convincingly explain. But the new economic reforms in Hungary have brought forth entrepreneurial pioneers, and Mr Palmi has all the dogged optimism

and eccentricity of that breed. Five years ago he left secure employment as a chemical equipment buyer for the Hungarian state, and has since sunk Forints \$2m (nearly £500,000) of his savings and those of a few other individuals into building the six-storey, 60-room hotel, on the Buda bank of the Danube. The hotel opened last December 28, and after a slow start (occupancy in January and February was 38-40 per cent), custom has picked up. Besides his family, Mr Palmi employs seven people, within the law which permits a maximum of nine non-family employees in a private business.

But it is, as the American aphorism has it, the pioneers that get all the arrows, and Mr Palmi is no exception. He obtained a private trading

## Prospects fade for EEC treaty conference

BY QUENTIN PEEL IN LUXEMBOURG

PROSPECTS FOR a full-scale EEC inter-governmental conference to amend the Treaty of Rome, and lay the groundwork for a closer European union, were fading rapidly yesterday after talks among Community foreign ministers.

There was a growing consensus that the EEC heads of government meeting in Milan next week should agree on a mini-treaty or protocol to step up their political co-operation and co-ordination of foreign policy.

The British initiative for the EEC summit to take firm decisions on more majority voting, a deadline for completing the common market by

1990, and a formal framework for political co-operation—but without amending the Community's founding treaty—gained ground at the latest Council of Ministers' meeting here.

The plan was spelt out in greater detail by Sir Geoffrey Howe, the UK Foreign Secretary, with the promise that a "pragmatic" approach could be linked with the idealism that is necessary to take the important step forward for the future of Europe.

The British plan still stops short of giving full legal substance to any decisions from Milan, except on the question of political co-operation, on

which the UK is ready to approve a protocol for legal instruments. This would both establish a secretariat to co-ordinate foreign policy consultation by the member states, and amount to a binding agreement by the EEC members to consult each other before undertaking national initiatives.

Other foreign ministers, including Herr Hans Dietrich Genscher of West Germany and M Roland Dumas of France, stressed the need for "concrete decisions" to be taken at Milan. While neither fully excluded a full-scale conference being called, both hinted that it might be premature.

M Dumas said the summit could give a mandate to EEC foreign ministers to draw up detailed proposals on the question of Community decision-making, the role of the European Parliament, and specifically how to complete the internal market and develop a "technological community." The Luxembourg summit in December would then take final decisions.

The British proposals would, among other things, seek to restrict the use of the Luxembourg compromise, which provides an effective power of national veto over Community decisions, and to extend the

areas for majority voting. The latter would be done by the heads of government reaching a political agreement not to insist on unanimity on specific decisions, where they had agreed at the summit level on a general goal—such as the completion of the internal market by 1990.

The foreign ministers considered for the first time the approach by Comecon to reopen talks on a general agreement for closer co-operation. They instructed the Commission to investigate whether such talks could be carried out without jeopardising current relations between the EEC and individual members of Comecon.

## Church-state relations improve in Poland

BY CHRISTOPHER BOBINSKI IN WARSAW

CARDINAL JOZEF CIEPLI and General Wojciech Jaruzelski met for the first time since January 1984, in the most public sign that church and state in Poland are back on speaking terms after the vicissitudes of the Popieluszko trial.

Relations reached a nadir after the murder last October of Fr Jerzy Popieluszko, the pro-Solidarity priest, and the subsequent trial of his security police killers which saw sustained attacks on the church for allegedly playing too large a role in politics.

At yesterday's four-hour meeting, Gen Jaruzelski is likely to

have pressed the cardinal to rein in his politically-outspoken younger clergy. The latter will no doubt have raised issues such as the planned restriction of university autonomy and the recently-ended trial of three Solidarity leaders. One of the three, Mr Adam Michnik, has smuggled a protest letter out of prison where he is starting a three-year sentence for illegal union activities.

The meeting opens what the authorities hope will be a conciliatory period in internal politics in the run-up to the October 13 parliamentary elections.

The Solidarity underground has given every sign that it intends to call for a boycott, and the Government feels it needs church neutrality and a relatively settled population to achieve the voter turnout of more than 80 per cent which it wants.

The church, for its part, still wants final Government permission for its scheme to funnel Western aid into agriculture.

The official organisation representing farmers (CZKOR), meanwhile, is holding a two-day meeting in Warsaw in support of a 25 per cent average rise in procurement prices from

July 1, after rejecting the Government's 10 per cent offer. It is demanding that its position be published in the Press and has told its leaders to press the price demand at a forthcoming meeting of the Communist party's politburo.

The CZKOR wants prices of machinery and equipment frozen while a new price agreement is negotiated. Stanislaw Zabala, the Agriculture Minister, appealed at the meeting for the farmers to be "responsible" but admitted that the 10 per cent rise will cover little more than the growth in the cost of production over the past 12 months.

## Paul Betts examines an experiment at the Rospo Mare field

## Elf tries new slant on oil drilling

JUST OUT of view of the Pescara marina, about 15 miles out in the Adriatic, Elf Aquitaine has been conducting an unusual experiment in oil drilling which is being observed with growing interest by other international oil companies.

The French state-controlled oil group is testing a novel technique known as horizontal drilling on its large Italian offshore oil field of Rospo Mare. Instead of drilling in the conventional vertical fashion, Elf is trying to do the opposite. After starting vertically, Elf has gradually turned the drill under the seabed to make an angle of 90 degrees, enabling it to enter horizontally inside the oil deposit. It has managed to drill as much as 600 metres horizontally in the oil reservoir using this technique.

We believe we are the first people to have successfully completed a horizontal well and we now intend to go into full production using this technique at Rospo Mare," said M Jacques Boello, Elf's deputy research manager who has been one of the key figures behind the technique's development. He acknowledged that other companies and countries have experimented with horizontal drilling, and some before Elf, but so far none have made it work.

The stakes in Italy for Elf are now high. It plans to invest £170m (£88m) in drilling initially four horizontal wells at Rospo Mare and production is due to start at the

end of next year or early 1987. If the venture is a success, Elf and its Italian partner, Agip, could extend the development to four additional horizontal wells.

One of the principal interests of the Rospo Mare venture for Elf is that, if successful, it could turn the Italian operations into a showcase for the group's horizontal drilling technology and production of heavy crude," said M Jean-Claude Vauchez, Elf Italia's managing director.

The Rospo Mare discovery was made in 1975, but Elf only decided last year to go ahead with development of the field. There is a large accumulation of oil—Elf says there is definitely 30m tonnes in place and the figure could go up to 180m-200m tonnes—but the crude is heavy, thick 11 degrees API, and difficult to extract because of the nature of the deposit.

One of the main problems has been recovering the oil. The conventional vertical way the water under the oil deposit would rapidly flood the well. Using the horizontal system, we can keep the water at bay for longer and extract more oil," said M Vauchez.

Horizontal drilling is more expensive than vertical drilling, but the recovery rate is much higher. "At first people thought it would cost 10 times more to drill horizontally, but we have now been able to bring the costs down to about three times more than a vertical well. As long as the horizontal well produces four or five times more than the conventional well, it has more than paid for itself," M Boello said.



Elf, which after Agip is the largest oil explorer and producer in Italy, claims it can make a "tidy profit from its Italian heavy crude production by selling it for the Italian peninsula. At \$21 a barrel, Rospo is profitable, and we are now getting nearer \$23 a barrel," said M Vauchez.

The French company has now restructured its operations in Italy, selling its network of 700 petrol stations and concentrating activities around its Adriatic oil and gas production. It maintains a number of specialised oil product market niches including the sale of tarmae, aircraft fuel, motor oils and heating fuels, among other products.

The petrol station network, like those of other oil companies, had been losing "several billion lire," according to M Vauchez. We were lucky because an Italian independent who had seen his exports

decline was looking for a domestic network to place the output from his refinery."

Elf also sold to Agip a 10 per cent stake in the Vega offshore oil field in Sicily. Elf preferred to concentrate its efforts and risks on Rospo Mare. It has no regrets about the decision.

Production at Vega was due to start originally in the middle of next year but a series of problems, including Sicily's insistence that the platform be built on the island and not on the Italian mainland, are now expected to delay production until 1987 if not 1988, according to Italian oil industry sources in Rome. "We will now be producing at Rospo Mare before Vega in Sicily," M Vauchez said.

However, Elf has already fixed its sights well beyond the Italian peninsula. As it was a company called Horwell with the French Petroleum Institute to market the horizontal drilling technique.

A few of the big international oil companies are unlikely to turn to Elf for technical advice, preferring to do their own research, but a number of companies have shown an interest.

"We have done a horizontal well for Sohio in Texas," M Boello said, and suggested that Elf should be in a position to help BP has a controlling stake, was also considering the possibility of applying the horizontal drilling technique in Alaska. "Even the Chinese are interested. We are due to drill a horizontal well for them in July," M Boello said.

## Norwegian oil platform strike called off

By Fay Gjester in Oslo

A STRIKE by production workers on Norwegian offshore platforms was called off late on Monday, after only three hours, when it was ruled illegal by Norway's labour court.

The stoppage—which OFS had planned to last 12 hours—was in support of a drilling rig strike by members of an affiliated union, ROP. Because it hit production rather than exploration, its consequences for Norway's economy were more serious and immediate than the drill rig strike.

What I want now for my hotel is a yacht port over there," Mr Zoltan Palmi said, gesturing in the direction of the nearby Danube, "and a heliport just here," pointing to a vacant lot beside his newly finished Victoria Hotel, the first medium-sized private hotel to be opened in Eastern Europe since the 1980s.

Quite why the rich of the world should want to sail their yachts or fly their helicopters to Budapest just to stay in his modest, \$36 a night hotel, Mr Palmi does not convincingly explain. But the new economic reforms in Hungary have brought forth entrepreneurial pioneers, and Mr Palmi has all the dogged optimism

and eccentricity of that breed. Five years ago he left secure employment as a chemical equipment buyer for the Hungarian state, and has since sunk Forints \$2m (nearly £500,000) of his savings and those of a few other individuals into building the six-storey, 60-room hotel, on the Buda bank of the Danube. The hotel opened last December 28, and after a slow start (occupancy in January and February was 38-40 per cent), custom has picked up. Besides his family, Mr Palmi employs seven people, within the law which permits a maximum of nine non-family employees in a private business.

But it is, as the American aphorism has it, the pioneers that get all the arrows, and Mr Palmi is no exception. He obtained a private trading

## Malta alters policy on Europe

BY GODFREY GRIMA IN VALETTA

THE NEW Maltese Government of Dr Carmelo Mifsud Bonnici is to take a radically different attitude towards Western Europe to that adopted by Mr Dom Mintoff, who stepped down as Prime Minister last December.

In a statement delivered last night to the island's 65-member House of Representatives, Dr Bonnici said that a new chapter in Malta's relations with Europe was being inaugurated. An era, often marked by constant wrangling, was coming to an end. Malta plans immediately to revive its participation in European institutions.

Malta's many disputes with West European countries, notably with Britain and Italy, and with the EEC, often showed the island to be drifting further from its traditional military and political allies—and now its major trading partners, particularly since the British military bases on the island were closed in 1979.

Shortly after taking office, Dr Mifsud Bonnici launched his own personal diplomatic initiatives to help restore the country's strained relations with Europe. In May, he said in an interview that he would welcome the signing of economic co-operation accords with Italy and the United States to balance treaties the island shares with the Soviet Union and Libya.

To cut short a long dispute with the EEC over a second financial aid package, Dr Mifsud Bonnici recently accepted a compromise offered by Community ministers which increased the offer to Ecu 29.5m (£17m) of which Ecu 10.5m is being offered as a grant.

Yesterday he welcomed a decision by the European Parliament urging Community ministers to show more sympathy to Maltese demands for aid needed for infrastructure schemes.

The Prime Minister has made clear, however, that increased links with Western Europe in no way detracted from Malta's commitment to remain neutral and non-aligned.

THE Swiss Government has indicated openly that it intends to abstain from voting on an OECD proposal to remove banking secrecy protection in the tax sector. Dr Otto Stich, the Financial Minister, says there can be "no question" of Switzerland agreeing to the recommendation which also foresees the international exchange of fiscal information.

He told Parliament that a Swiss veto would "block the work" of the OECD fiscal committee, although he declined to disclose exactly what moves the Government will take, he specifically mentioned the possibility of abstention. An abstention, however, would not be bound by what was in any case only a recommendation, he said.

Swiss likely to abstain on bank vote

By John Wicks in Zurich

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## Grand designs of Hungary's small hotelier

BY DAVID BUCHAN, EAST EUROPE CORRESPONDENT

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## Budapest to seek \$1bn in foreign loans this year

BY OUR EAST EUROPE CORRESPONDENT

HUNGARY WILL borrow around \$1bn on the international capital markets this year, Dr Matyas Tiszar, government minister, said yesterday, confirming that the country, which was the largest single borrower in Comecon last year, will be equally active financially this year.

Dr Tiszar said that by the end of May Hungary was still running a trade deficit with the non-Communist world. But it also earns some hard currency selling food to the Soviet Union, and Budapest officials are hoping to end the year with a modest improvement on last year's hard currency trade surplus of \$600m.

The bank governor said he was unsure whether the target of reducing the country's net debt, which stood at


\$4.5bn last December, by a \$300m could be met. However, he said reserves now totalled \$2.5bn, higher than any point in the early 1980s.

The chief aim of fresh borrowing, Dr Tiszar said, was to improve the structure of the debt by obtaining longer maturities and to further build up reserves. Hungary is, in fact, well on its way to its 1985 borrowing goal, having borrowed \$300m so far this year in a co-financing operation with the World Bank and an additional \$120m credit.

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## Gloomy outlook for annual budget battle



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## OVERSEAS NEWS

David Lennon examines a result of Jerusalem's 'iron fist' policy

### Israel's self-inflicted Shi'ite crisis

THE HUNDREDS of Lebanese Shi'ite Muslims held in Israel, whose release is the central demand of the hijackers of the TWA aircraft, constitute a self-inflicted headache for Israel. It had planned to release them but cannot now do so for fear of this being seen as a capitulation to blackmail.

These Shi'ite detainees were scheduled to be released and will be released. It is only a matter of time, an Israeli official stressed yesterday. But he added: "I do not want to make any link between this and the hostage situation."

The prisoners also symbolise the confusion which has surrounded Israel's policy towards the Shi'ites with whom, it belatedly recognised, it must develop a dialogue if it wants to ensure peace on its northern borders.

Most of the 766 Shi'ites still held were detainees during the final months of the major Israeli presence in southern Lebanon. This was the period of the "iron fist" policy when the Israeli troops carried out punitive raids against Shi'ite villages in an attempt to curb the level of attacks on the retreating forces. Israel swept up almost 2,000 people, mainly Shi'ites, who its spokesman said "took an active part in terrorist activities against Israel." They were incarcerated without trial in the

The Greek Socialist Government and Press rose up in arms yesterday against criticism of lax security measures following last Friday's successful hijacking at Athens airport of a TWA passenger jet.

Mr. Vassilis Charalambopoulos, the Greek Foreign Minister, angrily accused the U.S. of leading a worldwide "slandering campaign" which is assuming the dimensions of a "true conspiracy".

This kind of incident cannot be completely prevented.

This has been proved in France and West Germany, without unleashing the kind of storm that has broken out against Greece," he said.

He warned that if criticism continued it would be bound to affect relations between Greece and the West.

The minister also defended Greek security as "the same as in other European countries" and said measures were followed "meticulously". A rash of editorials and articles in the same vein appeared in yesterday's pro-government Press.

to prevent the area being used again by the PLO to launch attacks against Israel.

The massive arrests of Shi'ites in the south did nothing to enhance the prospects of success of these approaches. During May, Israel attempted to improve the atmosphere by releasing some 400 Amal members from Aitit in two batches.

At the time it was explained that this was aimed at strengthening the hand of the Amal militia in southern Lebanon, which had been trying to stop Palestinian fighters from returning to the area to use it as a staging ground for attacks on Israel.

This was widely seen as a gesture towards Mr. Berri personally, as well as enabling Amal to replace some of its fighters who had been pulled out of the south to fight the Palestinians in West Beirut.

It was also in line with the stated policy of the military which had said the Shi'ites would be released alongside of the withdrawal and in the same conditions in the south permitted.

Following the two earlier releases, Israel was about to free a further 300 detainees about 10 days ago, on the eve of the final stages of the military withdrawal from Lebanon, but this was cancelled at the last minute without explanation.

Israel built detention camp at Ansar, 13 kilometres east of Tyre in southern Lebanon.

Ansar was closed on April 3 in anticipation of Israel's withdrawal from that area. About 750 prisoners were freed and the other 1,200 or so transferred to Aitit prison in northern Israel.

This transfer was condemned internationally as being contrary to the fourth Geneva convention and, domestically, as hardly likely to help in attempts to establish a dialogue with the Shi'ite leadership.

The emergence of the Shi'ites as the new power in southern Lebanon has caught Israel

unprepared politically as well as militarily. The belated attempts to develop political contacts with prominent Shi'ites such as Mr. Nabih Berri, the leader of the Amal militia, and Minister for Southern Lebanon, proved fruitless.

Mr. Uri Lubrani, the coordinator of Israel's policy in southern Lebanon, said recently that Israel had tried to establish relations with the Shi'ites but, due to internal strife in the Shi'ite community, "there is no address to call on."

If there had been a response, Israel would have been willing to "hand them the keys to the south," provided they guar-

### Pretoria reviews monetary policy

BY JIM JONES IN JOHANNESBURG

SOUTH AFRICAN exchange controls, introduced to stem the outflow of capital which followed the 1961 Sharpeville riots, are likely to be relaxed significantly if parliament accepts the recommendations of a high-level commission of inquiry into monetary policy headed by Dr. Gerhard de Kock, Governor of the Reserve Bank.

The commission was established in 1977 and its recommendations will form the basis for fundamental changes to South Africa's monetary policies and monetary system.

The commission says the present system does not recognise the need for market-oriented policies, lacks a consistent approach to monetary aggregates and interest rates, and is weak in exchange rate and bank credit controls.

The De Kock Commission's report recommends that monetary policy be market-oriented rather than operate on a system of direct controls and that its fundamental aims ought to be to stabilise domestic prices and wages.

It says that although the authorities have been moving away from the direct monetary controls, which were introduced progressively in the 16 years up to 1980, there remains a need for clear exposition of intermediate targets — mainly control of monetary aggregates — and operational variables such as interest rates and the anticipated transmission mechanism.

Immediate and complete abolition of exchange controls cannot be recommended at present, the report says. It does, however, suggest that restrictions on emigrants and residents be largely relaxed; the amount of emigrants allowed to take with them be doubled to a maximum of R200,000; and that residents and domestic insurance com-

panies and institutions be allowed freely to make limited investments overseas.

This relaxation of exchange controls is expected to combine with greater freedom for local banks to deal in forward foreign exchange markets to create a situation in which the rand floats relatively freely with its external value determined by interest rate parties.

The commission recommends that the Reserve Bank should, for the first time, set intermediate targets for one or more money supply aggregates, though it adds that interest rates and exchange rates should not be totally subordinate to the achievement of money supply targets.

Nevertheless, the commission believes that interest rates should be allowed accurately to reflect changing degrees of tightness in financial markets.

South African N-plant back in operation

### South African N-plant back in operation

KOEBERG, South Africa's only nuclear reactor, is to resume operation today after being closed on February 21 for investigation of suspected flaws, writes our Johannesburg Staff.

The first unit of the French-built pressurised water reactor was brought into operation outside Cape Town in March 1984. It was closed in February when a routine inspection of the steel pipework of the second unit's cooling system was found to contain fissure inclusions that might have had potential failure points.

Although Framatome, the French nuclear construction company, protested that the inclusions represented no risk to operations, Eskom, the South African state-owned electricity utility, closed down the operating unit as a precautionary measure.

### Mubarak holds first talks with Sudanese leaders

BY JOHN MURRAY BROWN IN KHARTOUM

PRESIDENT MUBARAK of Egypt held two hours of talks with Sudan's new leader, General Sower Eddahab, in Khartoum on Monday, his first visit to Sudan since the April coup which toppled former President Jafar Numeiri.

Government sources said the discussion covered bilateral relations and matters of common interest. No official request has been made by the Sudanese for the extradition of Numeiri from Egypt, where he has been since the coup. However, many of the political parties in Khartoum consider it a precondition to resumption of good relations with Egypt. In a brief statement to the press before leaving for Cairo, President Mubarak reaffirmed Egypt's long tradition of giving political asylum, without condition.

Recent relations between the two countries have been cool. Although Egypt was quick to congratulate the new Sudanese leadership on the success of the April coup, until now they had had no high level contact. Relations have not been improved by Sudan's rapprochement with Colonel Qaddafi's Libya. Matters were made worse by the reported comments of Sudanese Prime Minister Dr. Ghazali Dafaalla that the accords with Egypt were "null and void."

### Afghan rebels destroy jets

SABOTEURS DESTROYED about 20 jet fighters at Shindand, Moscow's largest and best protected airbase in Afghanistan, Western diplomats said yesterday. Reuter reports from Islamabad.

They said the planes — mostly MiGs — belonged to the Afghan air force and were destroyed on June 12.

Some aircraft had recently been moved to the airbase after other airbases came under

increasingly heavy rocket fire from rebels, the diplomats added.

The diplomats said the Shindand attack, which resulted in the single largest loss of aircraft since Soviet troops entered Afghanistan in 1979, appeared to have been the work of saboteurs among Afghans at the base.

Combined Soviet and Afghan airbases are segregated, with each air force keeping its own personnel to service its planes.

### Thai Cabinet agrees to buy U.S. F-16 jets

By Boonsong K'Thansa in Bangkok

THE Thai Cabinet yesterday gave formal approval to the country's controversial purchase of 12 F-16 jet fighters from the U.S., a project likely to cost about \$318m.

Approval came seven weeks after the U.S. Congress gave the go-ahead and more than a year of debate. It was made despite intense political opposition from within Thailand and a warning from the Finance Ministry that the purchase could adversely affect the country's foreign currency reserves.

The Cabinet cited national security for the approval. There was every need for the Royal Thai Air Force to boost its air defence capability to counter the growing threat from Soviet-built Mig-23 jets in Vietnam.

The Cabinet said the purchase was made on the long-term "installment" basis under "extremely relaxed" financial terms.

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## Nakasone hints at pledge on voluntary export restraints

By JUREK MARTIN IN TOKYO

JAPAN'S Prime Minister, Mr. Yasuhiro Nakasone, hinted yesterday that next month's import "action programme" might also include a commitment to voluntary export restraints.

Specifically, Mr. Nakasone told a meeting of government officials that if Japan's trade surplus continues to go up even after the new programme is instituted, then additional export controls might be unavoidable. The new package might, therefore, embrace a commitment to this effect.

This is the first time the Prime Minister has gone this far in public, though two months ago he was extremely critical of the Ministry of International Trade and Industry's decision to increase by about 25 per cent the unofficial limit it is putting on Japanese car exports to the U.S.

Mr. Nakasone is waging a major campaign inside his own Government to try to ensure that next month's programme, details of which continue to emerge almost daily, is not dismissed overseas as inadequate.

He is reported, however, to be encountering considerable resistance from some ministries, especially those concerned with agricultural products.

It is estimated that as much as 40 per cent of all Japanese exports are subject to restraint

—mandatory or voluntary. Most of the items involved are sold to the U.S. and the EEC countries—the chief critics of Japan's trading practices.

Japan has considered each instance to be a separate case and has, so far, eschewed any across-the-board commitment to export controls, as Mr. Nakasone hinted yesterday.

There had been discussion in Japanese political circles recently of the possibility of imposing an export surcharge on goods sold to the U.S. on the grounds that this could preempt any import surcharge being imposed on Japanese goods by the U.S. Congress or Administration.

But Mr. Nakasone, as well as almost every significant part of the Government, had rejected such a recourse.

Meanwhile, the Prime Minister's additional "pitch of the day" in his session with officials yesterday was for drastic simplification of Japan's standards and certification systems, which, he said, were particular objects of foreign criticism.

He was told by his hunsenrats that agreement on the standards which might be eased for inclusion in the pending action programme had not yet been reached. He was said to have registered his dissatisfaction at this.

## Airline industry profits likely to fall

By Michael Donne, Aerospace Correspondent

THE profit of the world airline industry in 1985 is likely to fall below last year's \$500m (\$416m), after interest, and could decline further in 1986.

The International Air Transport Association, with 137 airline members, forecasts that traffic growth, although now strong, may moderate. In addition, continuing pressures for fares cuts have led to pressure on airlines' revenue yields.

Unless the major airlines can reduce costs substantially, it is likely that the 1985 profit after interest could fall to about \$400m, and to little more than break even during 1986.

Costs points out that up to the end of 1983 the world's airlines collectively suffered about \$6.2bn losses, of which barely \$300m has been recouped.

The industry, therefore, needs sustained profitability to wipe out the accumulated deficit and generate funds for re-equipment.

Re-equipment costs are estimated at some \$167bn over the next decade or so, much of it essential expenditure on replacing ageing fleets. It therefore seems likely that the airlines' interest burden, currently running at more than \$1bn a year, will rise further.

## Hong Kong Dragon plans to fly to China

A 120-seat Boeing 737 in the colours of Midway Express, the U.S. charter airline, flew into Hong Kong's Kai Tak Airport yesterday, unnoticed amid the roaring traffic of Jumbos, Airbuses and similar wide-bodied aircraft. Few will have noted that Midway never flies to Hong Kong.

This barely-noticed arrival nevertheless marks what could be one of the most significant developments in Hong Kong's recent airline history.

The Government's air licensing authorities are bracing themselves for controversies that are likely to have far-reaching implications for other carriers—particularly Cathay Pacific, and on routes into mainland China.

Within a matter of weeks, the leased Boeing 737 will be wearing the livery of a new airline, Dragonair. Beginning with daily charter flights to Shanghai and Peking, Dragonair plans to expand to capture a significant share of the air traffic between Hong Kong and China's two main cities.

Until a month ago, the venture attracted little attention—and the attention it drew was dismissive. But one official recently traced a change in view: "Suddenly, we have come face to face with the fact that this is no hack affair."

Dragonair has a strong organisation, strong financial backing, and powerful political support. They still have a long way to go, but they seem determined to make significant inroads into Hong Kong-China

air routes—and might actually succeed.

Dragonair's application for an air operator's certificate is still in the hands of Hong Kong's Civil Aviation Authority. Applications for licences to fly daily charter routes to Peking and Shanghai can only be made when the certificate has been cleared.

But the signals are that its leased Boeing may be making its maiden run into China by the beginning of August.

Air-traffic rights into and out

national airline and its aviation authority, would after 1987 seize a unique opportunity for self-aggrandisement.

By controlling the right of airlines to fly into and out of Hong Kong, it could strengthen its own international route network, and seriously undermine Cathay Pacific, which is Hong Kong's de facto flag-carrier, even though it is British-owned.

Cathay succeeded in convincing negotiators that any such moves would be seen as under-

The fear may seem a distant and exaggerated one, given the maturity of Cathay, and its formidable reputation. But that takes no account of the people who own Dragonair.

The Hong Kong Macao International Investment Corporation, set up days after the Sino-British agreement was made public, has backed the airline to the tune of HK\$500m (\$51m). Its list of 31 main shareholders reads like a Who's Who of the richest and most influential of its Chinese businessmen.

Even more significantly, the Bank of China holds a 22 per cent equity stake, while Peking's main trading arm in Hong Kong, China Resources, holds a further 12 per cent.

With such backing, the airline's influence inside China is second to none. It is a moot point—and one that will greatly trouble Hong Kong's aviation authorities—whether it should be seen as a British airline or a Chinese one.

The point will be critical when Dragonair comes—as it inevitably will—to apply for rights to fly scheduled services to China and elsewhere overseas.

Such agreements are always based on a balancing of reciprocal rights, and while CAAAC would want to see Dragonair on the British side of the negotiating table, Britain would clearly prefer to see the airline sitting alongside CAAAC, the "mirror image" of Cathay.

Mr. Steve Miller, recruitment manager at British Airways, says that less than three months ago to manage the new group, is facing more practical problems. Apart from ensuring he wins the air operator's certificate, he has staff to train, flight plans to prepare and booking procedures to arrange.

Cathay Pacific insists it is unruffled by the prospect of stiff competition, but is concerned to protect its present and future plans for scheduled flights into China.

It fought for over three years to win the right to operate a scheduled service to Shanghai and has only recently won clearance to increase flights to three a week.

The airline has still to win the right to fly to Peking, or any other destination in China. It has been allowed to lay on charter flights during the Chinese New Year and other major Chinese holidays, but has been refused the right to fly more regular charters, even though it is widely acknowledged that demand for airlines seats into cities such as Peking and Shanghai greatly outstrips supply.

It is certain that Cathay will apply alongside Dragonair for any new routes offered by Peking—whether scheduled or chartered—and the contest that ensues is likely to provide important signals on how China intends to interpret the Sino-British agreement up to and after 1987.

In September this year, Britain and China sit down to negotiate a new air services agreement. By then, if all goes to plan, Dragonair will be flying a second aircraft between Hong Kong and the mainland.

## Firms to help Soviet Union exploit mineral reserves

By OLLI VIRTANEN IN HELSINKI

THE SOVIET Union is set to exploit huge mineral reserves in its Kola Peninsula with the help of Finnish companies.

The total value of the project, which will include mines, housing and services, has not been announced but it is estimated to be about \$1bn (\$833m). The deployment will begin during the next Soviet five-year economic plan beginning in 1986.

The area in Kola Peninsula, at the north-western corner of the Soviet Union, is reported to have one of the richest concentrations of minerals in the world.

Soviet officials say they have discovered about 700 different minerals there.

In the first stage of the project, the Soviet Union will begin to mine and refine apatite-nepheline resources. Apatite is used in making phosphate fertilisers. There are several smaller apatite mines operating in the Kola Peninsula, with a total production of 18m tonnes of concentrate a year.

Soviet officials, announcing the deployment decision last week at the Finnish-Soviet trade commission meeting in Lenin-

grad, said that Finnish companies will have the first priority to take part in the project.

Firms have built another similar mining town in Kostamus, close to the Finnish border. The Finnish chairman of the commission, Finland's Prime Minister, Mr. Kalevi Sorsa, estimated in Leningrad that the Kola project will clearly be larger than Kostamus which cost the Soviet Union Fmk 3.5bn (\$500m).

A number of Finnish companies, including the country's biggest mining group Outokumpu and some construction companies will be in the front-line competing for the orders. The deployment will also offer opportunities for Finnish metal and engineering exporters.

The Soviet chairman of the commission, Mr. Ivan Arhipov, said in Leningrad that Finnish companies will have priority, providing they take part in financing arrangements.

This was a reference to recent discussions about possible compensation deals in which the Soviet Union would use products of a Finnish-built factory as payment for the project.

## Moscow offer to Norway

By FAY GJESTER IN OSLO

THE SOVIET UNION has invited four Norwegian companies to co-operate in the mining-industrial venture on the Kola peninsula.

Representatives of Norsk Hydro, Elkem, Orkla Industries and A/S Prospektoring will visit a factory and a mine in the area on Friday. They will be accompanied by Mr. Asbjørn Haugstvedt, Norwegian Trade Minister.

The trip to Kola follows this year's meeting in Moscow of the Norwegian-Soviet mixed economic commission, which seeks to promote trade between Norway and the Soviet Union.

All four company executives are on the Norwegian delegation to the commission, a meeting of which started yesterday.

Nearly 20 Norwegian companies are represented at the Moscow talks, among them Bococon, a Norwegian partner-ship formed to win Soviet contracts for Russia's offshore petroleum search in the Barents Sea.

Meanwhile, Pomer Oil, a recently-formed subsidiary of a Finnish-Norwegian trading company, has undertaken to help Geoco, a Norwegian seismic survey company, secure work in Soviet waters.

## Philips plans TV tube joint venture in China

By LAURA RAUN IN AMSTERDAM

PHILIPS, THE Dutch electronics group, has strengthened its rapidly growing foothold in China with plans to establish a joint venture in Jiangsu province for the production and sale of colour TV tubes and deflection coils.

An agreement in principle was signed at Philips' headquarters in Eindhoven yesterday during an official visit to the Netherlands by Zhao Ziyang, Prime Minister of China.

The four-day visit is part of a large European tour designed to promote economic co-operation, with China interested in acquiring technology and European countries seeking greater trade opportunities.

The joint venture will be 30 per cent owned by Philips and 70 per cent by the Bank of China-Nanjing Trust and Consultancy Company and the Huadong Electron tube factory.

A factory with a production capacity of 1.5m tubes and deflection coils a year will be built in Nanjing, with operations to begin at the end of 1987.

Philips will supply machinery, components, tools and know-how for manufacturing, while the Chinese partners will build and equip the new plant according to Philips' designs and specifications. The Dutch company will provide further technical

assistance and equipment after production begins.

The new joint venture is the second such project announced recently, following a 50-50 venture between Philips and the China Electronics Import and Export Corporation to build an audio equipment factory.

Mr. C van der Klugt, a vice-president of Philips, noted in a speech in London yesterday that "Philips has given significant attention to China and its huge market potential."

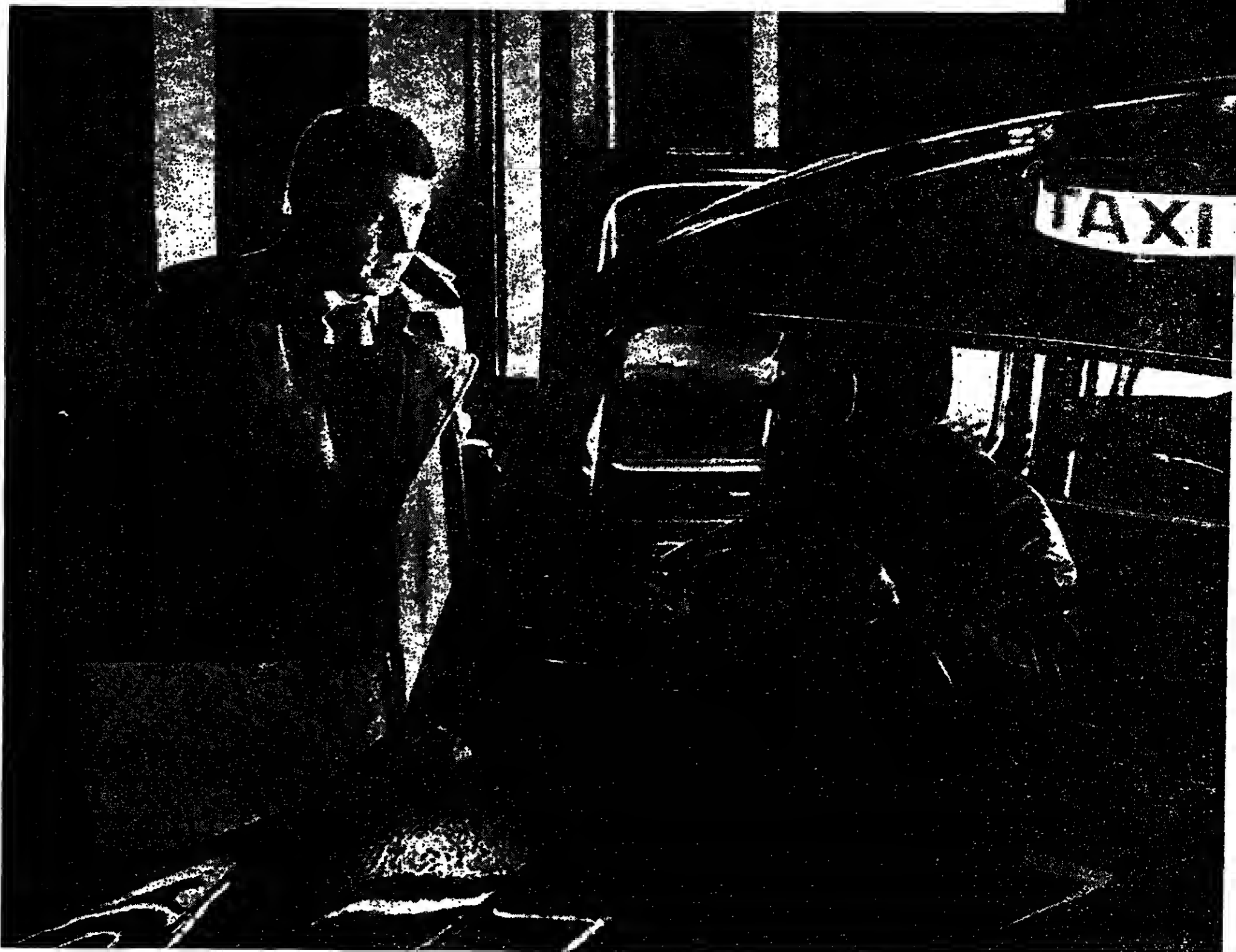
The Dutch company, which is Europe's largest electronics company, expects sales in China to multiply five-fold this year.

In recent months, Philips has received a string of contracts from China involving colour television sets, radio recorders, laserdiscs and refrigerators.

Earlier this year, Philips opened an office in Peking, the first such visit by a Chinese leader, is another sign of warming bilateral relations. China downgraded diplomatic ties with Holland in May 1981 in protest of the Dutch sale of two submarines to Taiwan.

Full diplomatic relations between The Hague and Peking were restored in February 1984 following a Dutch decision not to deliver four more submarines to Taiwan. Last January the Dutch Foreign Minister, Mr. Hans van den Broek, visited China.

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## EUROPEAN NEWS

## West Germany fights the sunbelt versus rustbelt image

Rupert Cornwell in Bonn examines the evidence of a north-south problem in Europe's most powerful economy

HAS EUROPE'S most powerful economy acquired the dubious distinction of joining Britain and Italy as another EEC country with a north-south problem?

The answer, to judge from the headlines and the carefully selected statistics and pictures which support them, would appear to be an unequivocal "yes." There is an ever-widening divide in West Germany between an affluent south and a decaying north.

The contrasts are superficially irresistible, between the southern states of Baden-Württemberg and Bavaria in particular, which would seem to consist of little else than glossy new aerospace or robotics

plants nestling in pretty countryside, promoted by evocative publicity slogans like "Come and work where others go on holiday," and those now familiar images of the closed shipyards, steelworks and oil refineries of the north, all for good measure enveloped in a suitably wintry setting. In a word, sunbelt versus rustbelt.

The argument, at its simplest, is that West Germany is undergoing its own equivalent of the current westward and southward shift in the U.S. - or, still more bleakly, taking the British path towards a split between a conservative, risk-taking and high-employment south, and an atrophied, over-unionsed north, po-

litically of the left, and condemned by social tradition, economic change and plain geography to long-term decline mitigated only by huge state subsidies.

That is the simplest view. Most experts would say it is more than a little misleading. But it does draw powerful support from the most emotive political issue of the day here: unemployment.

In 1984, around 9 per cent of West Germans were without a job. Yet in every state north of the "frontier" between the two halves of Germany - Schleswig-Holstein, Hamburg, Bremen, Lower Saxony and North Rhine-Westphalia, the unemployment rate was above this figure. In

every one to the south, with the exception of the atypical enclave of the Saarland, handicapped by a struggling steel industry, it was lower; in the case of Baden-Württemberg, as little as 5.3 per cent.

Moreover, despite containing North Rhine-Westphalia, the most populous federal state, the north has been slowly losing inhabitants to the south to the point where the two halves are today almost exactly equal in population.

There is other evidence pointing to the greater dynamism of the south. Its four-star Länder, Bavaria, Baden-Württemberg, Hesse and Rhineland Palatinate account for

48.3 per cent of West German gross national product - but for more than 80 per cent of the new companies set up throughout the country in 1984. The big ones already there - Daimler-Benz, Siemens, Bosch, BMW and the aerospace concerns MBB and Dornier - merely underline the region's entrenched position in high technology.

Then again, as if to prove the subsidies theory, northern states (including West Berlin) occupy six of the first eight places in the league table of indebted states. Bremen alone has the memorable celebrity of debts of DM 11,415 (\$8,734) per inhabitant: at the other end of the table, the comparable figures are

DM 2,038 for Bavaria and DM 2,793 for Baden-Württemberg.

But is everything so clear-cut? Certainly not. Data compiled by Ifo, the Munich-based economic institute, shows that Hamburg - world-weary but elegant - remains by far the wealthiest German state, in terms of output per head, and indeed improved its position between 1970 and 1983. So did Bremen, for all its well-advertised problems, including an unemployment rate of 13.5 per cent. Despite appearances to the contrary, and the smooth campaigning of Herr Lothar Späth, its premier, Baden-Württemberg actually slipped back slightly.

In fact the real shift since 1970

has been in favour of Bavaria, Baden-Württemberg's great rival in the south, at the expense of North Rhine-Westphalia. Indeed, if the north has lost ground, that has been exclusively due to that last region's difficulties, linked to the problems of the Ruhr coal and steel industries which were long its lifeblood.

The most measured view, perhaps, comes from Mr. "So far you can't talk of a dramatic shift from one half of Germany to the other: but there's no arguing that the south is now better placed for the future." One reason lies in the industries which are operating there: another in the research and educational facilities which have grown up around them.

The same point is made at the opposite end of the country, by Dr Klaus-Werner Schütz, of the International Economics Institute of Kiel University. "Here in Schleswig-Holstein, there's no technical university you have to go to Stuttgart. To bring someone back here, you probably will have to pay them even higher wages." Which brings him to another, and perhaps even more telling, argument.

Of all the statistics traded in the north-south debate, few attract scantier attention than wage costs. The north has higher unemployment - but one reason may be that it costs more to employ people there.

In Hamburg, it costs DM 17.15 per hour, in North Rhine-Westphalia DM 15.37 and in Lower Saxony DM 15.21. In Baden-Württemberg the figure is DM 15.10, in Bavaria just DM 13.97 - which may be one more justification for the forecasters' belief that Bavaria by the end of the decade will have the lowest jobless rate in West Germany. Yet German unions are not ready to face the implications of such realities. In the seven-week engineer-

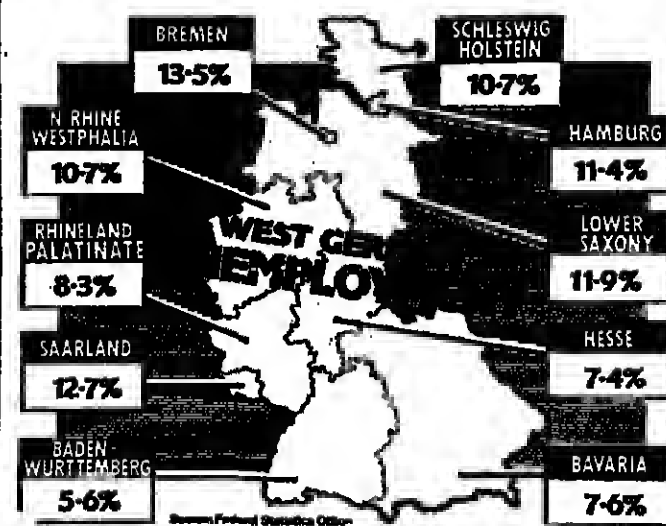
ing dispute a year ago over a shorter working week, IG Metall, the metalworkers union, chose companies in rich north Westphalia and Hesse as its targets. The settlement of the strike, however, was nationwide, meaning, as Dr Schütz remarked sourly: "It is Mercedes and Bosch which set the conditions here in Schleswig-Holstein." And that even though the supply of labour is greater in the north and the demand less.

Nor is there much likelihood that this state of affairs will swiftly change. The most painless compensation for such discrepancies is subsidies. For all the vaunted commitment to limiting subsidies and the promotion of enterprise and competition, German governments - both central and regional - have shown small will to act.

The short-term consequences of lower subsidies would probably be higher unemployment: not something that the poorer Länder, with their shrunken demands for special treatment, or the centre-right coalition in Bonn, still dazed by its electoral disaster in North Rhine-Westphalia in May, care to contemplate.

To that extent, therefore, the pull of the comparatively unfettered south may grow in the near future. In the longer term, however, the north - and especially North Rhine-Westphalia, in some respects still the centre of West German economic gravity - is unlikely to allow the drift to continue indefinitely.

The high-technology, research-oriented models of Bavaria and Baden-Württemberg are being ever more widely imitated. "The opening hands in the north-south battle have been dealt. But the card game has hardly started." Until it ends, West Germany will stay one of Europe's most homogeneous, evenly balanced economies.



## Dutch recovery 'faster than planners forecast'

BY LAURA RAUN IN AMSTERDAM

THE NETHERLANDS' industrial recovery is growing faster than the central planning bureau recently forecast and at a pace comparable with the period after the second world war, according to Mr F. W. Rutten, the Government's senior economic adviser.

He also predicted that profits, investment and employment would continue to climb relatively sharply in the second half of the 1980s, with the economy expanding between 2 and 3 per cent.

Profit margins and companies' disposable income have now rebounded to a level about even with the early 1970s before the first oil crisis, Mr Rutten said earlier this week.

The chief economist's more optimistic outlook is apparently shared by Mr Ruud Lubbers, Prime Minister, who recently indicated that he expected economic growth above the widely forecast 3 per cent.

Cause for optimism is provided by some recent economic news: bankruptcies in the first five months of 1985 dropped 13 per cent from the year-earlier period, while unemployment fell below 16 per

cent in May from about 18 per cent the previous year.

Mr Rutten said that business investment was expanding more rapidly than the 5½ per cent predicted for this year by the semi-independent planning bureau. He also noted that the import volume of investment goods was 50 per cent higher in the first months of 1985 than in the same period of 1983.

"The current period is not comparable with the golden years of the 1970s but rather with the 1950s, when great effort and sacrifice were made to achieve postwar prosperity," the influential economist said. Mr Rutten described the industrial recovery as a structural improvement attributable to wage moderation, tax cuts for business and the international upturn.

Corporate profitability fell sharply in the Netherlands during the 1970s as wage rises far outpaced inflation and productivity slumped. Business investment also eroded notably, while economic growth subsided. The recession of the early 1980s forced widespread and intensive restructuring in Dutch industry, with fruits of the slimming-down process now appearing.

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## TECHNOLOGY

## Fast forward to cheap ways of storing data

ALPHA MICROSYSTEMS, of Irvine, California, would like to be known as the world's leading manufacturer of multi-user microcomputers. Its place in electronics history, however, is more likely to be guaranteed by its contribution to low cost microcomputer memory technology.

It uses standard domestic video recorders and standard four hour video cassettes to record up to 800m (100 megabytes) individual bits of data (single binary digits, equivalent to a single pulse of electricity) at a price of around 10 cents a megabyte of storage.

Until now, this wonder has only been available to owners of Alpha Microsystems' own computers. The company is, however, planning to sell from August a "bolt-on goodie" for owners of IBM XTs, ATs and other IBM plug-compatibles such as the AT&T/Olivetti machines, which will give them access to this remarkably cheap form of data storage for under \$1,000.

For \$650 they will be able to buy a plug in printed circuit board, virtually a computer in its own right, which slots into the PC and which enables it to

## Professional Personal Computing

BY ALAN CANE

So the first test for Alpha Micro was to discover how much data could be recorded on a VCR cassette. The company had already settled on a conservative method of data recording. In the U.S., for example, the stored video signal represents a field of 240 lines repeated 60 times a second.

That gave a potential storage limit for a four hour cassette of 32bn bits of data. Alpha, however, went for reliability, storing only 40 bits along each picture line and making no attempt to store data during the vertical retrace intervals at the end of each field. That reduced the capacity of a four hour tape to only 8bn bits of data.

Tests showed that the tape could indeed store that volume of data but not with the necessary reliability. As the objective, however, had only been to store 800m bits of data, Alpha's engineers reasoned they could duplicate the information several times on each tape.

Their tests showed that recording two copies of the data gave an error rate approximately equal to that of "floppy" disk storage while three copies gave an error rate better than that of Winchester disk storage.

Winchester disk technology is one of the most reliable forms of storage known, involving a rigid magnetic disk spinning in a hermetically sealed chamber free of dirt and safe from clumsy humans.

The Alpha team decided to err on the side of safety and store six copies of the data to ensure its integrity. The data is stored serially, six blocks at a time, as identical blocks with special built-in correction codes in each. As each block is read, an error-check calculation is performed, and when the right

answer is given the system skips along to the next set of blocks.

According to Alpha: "A user may optionally specify that up to 255 copies of the data will be recorded, thereby raising the theoretical integrity of the data to approach infinity, barring equipment failure or physical destruction of the video cassette."

So what Alpha had developed was an adult version of the cheap cassette storage commonly used on home computers. It was fast, cheap and accurate.

Streaming tape drives, the devices used conventionally to store computer data cost up to \$5,000; the tape used in the system perhaps \$20.

By comparison, an ordinary VCR costs \$500 or less, and a four hour VCR tape about \$10.

But Alpha had developed more than just a low cost data storage technology; it had invented a cheap way of broadcasting computer data to a large number of microcomputers.

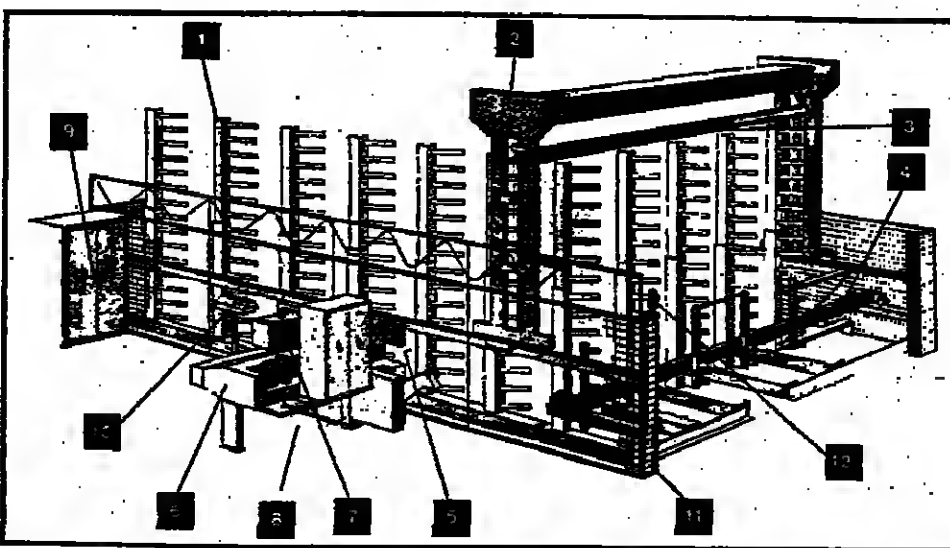
Consider, for example, a company with many microcomputers spread over a limited geographical area. Using Alpha's video technology, cable, microwave or satellite tele-

vision systems could be used to transmit data to all these workstations simultaneously.

The BBC's *Tomorrow's World* demonstrated the technique two weeks ago, echoing an earlier demonstration at a Canadian Computer Show. BBC transmitted data from the television studios to a portable computer on top of a crane jib. The signal was then spliced into the transmission allowing Alpha Micro owners to record the information on their videorecorders.

Alpha claims that its technique enables data to be sent from a computer to anywhere that a TV picture can be received.

Meanwhile, it continues to make good money from its traditional business of multi-user micros for niche markets. In a tough world, it seems to have shown that a measure of specialism tied to a lot of innovation can be a formula for success.



1 Storage racks for bars. 2 Gantry. 3 Arm for accepting bars of varying diameter. 4 Carriage for loading bars. 5 Device for lifting and lowering of roller track. 6 Computer controlled saw. 7 Control panel. 8 Container for sawn pieces. 9 Supervisory computer. 10 Control panel for minor adjustments. 11 Protective fence. 12 Warning light.

## Satellite TV: Japan tries again

NORMAL SERVICE is due to be restored to Japan's stricken direct broadcasting by satellite (DBS) project early next year.

Since Japan launched the world's first high power DBS satellite last January the project has been a costly embarrassment. At first the Y26bn (\$80m) satellite delivered two channels of good quality pictures from the Japanese Broadcasting Corporation, NHK, to mountainous and remote island regions which cannot receive terrestrial television.

On the main islands they were picked up by 1 metre diameter dishes and as far away as Okinawa on 4 metre dishes. Then two of the three transponders failed and the satellite was only able to broadcast a single channel.

The failure stopped Japanese consumer electronics companies hoping to sell the receiving equipment in their tracks. And there has also been little incentive to put on special DBS programmes for an audience that has so far reached only 40,000 people.

Mr Kazuyuki Aoki, senior advisor in the Communications Policy Bureau of the Japanese Ministry of Posts and Telecommunications says it is difficult to know precisely what went wrong with the BS-2A satellite high up in the geostationary orbit.

But the problem was almost certainly caused by defective insulation and a build up of excess heat in the travelling wave tube amplifiers (TWTAs)

produced by the French electronics company Thomson CSF.

The heat became so intense that part of the TWTAs, which amplify the television signal from earth, melted.

"We are very disappointed but we plan to launch another space satellite," Mr Aoki said. Modifications have been carried out to the Thomson tubes. Mr Aoki said that heat sinks had been installed to radiate excess heat.

The second satellite was due

BY RAYMOND SNOODY  
RECENTLY IN TOKYO

to be launched later this summer. But this has now been postponed until next January or February to allow ground tests to be completed.

When the new satellite joins the partially functional original in orbit, the DBS viewers in remote regions will be able to receive an education channel as well as the existing general one.

The problems of the first generation of Japanese DBS, intended to relay existing television channels to the 420,000 homes which cannot receive them, look as if they are going to be solved.

Japan is now pressing ahead with a second generation system scheduled to be launched in 1989.

And this time the travelling wave tube amplifiers are likely to be Japanese.

NEC and Toshiba are now developing travelling wave tubes in a joint effort with NHK, Mr Aoki said. "To begin with we did not feel we had the confidence to manufacture high power TWTs. Now I think we can manufacture these tubes," Mr Aoki added.

The Japanese Government will meet 35 per cent of the development costs of the two satellite systems which will broadcast three channels of television programmes.

The 1989 launch is important for the Japanese electronics industry which sees DBS as the delivery vehicle for high definition television (HDTV).

Electronics companies such as Sony and Matsushita already have HDTV sets with 1125 scanning lines producing television pictures of remarkable quality compared with existing sets.

But they see the new technology as best suited for satellite delivery because HDTV requires five times the data volume of conventional television.

Japanese electronics companies hope that by the turn of the decade DBS will have created a market for HDTV in Japan which will provide the base for an assault on world markets.

High definition television, they hope, will be one of the "new media" products that will mean growth to mature conventional colour television and video recorder markets.

## Automatic saw is a cut above the rest

THREE British companies have taken the plunge into the new world of automated sawing systems to reengineering workshops.

Hyster, a fork-lift truck company based in Irvine, Scotland, is using equipment that takes metal bars from racks and automatically feeds them into a sawing machine for cutting to standard lengths.

Yarrow Shipbuilders (owned by GEC) of Glasgow and Brook Motors, an electric motor manufacturer in Huddersfield, are due to take delivery of similar systems.

The equipment, made by Kasto of Aachen, West Germany, and sold in the UK by Rivers Machinery of Winchester, includes up to 180 racks which store bars of steel, brass or aluminium up to 6 metres long.

UK companies have been slow to take up the Kasto automated systems. The company has sold more than 100 to customers in West Germany and elsewhere in Europe.

The equipment includes a gantry which selects bars from a specific rack under computer control, and feeds them to a circular saw which cuts them into a predetermined shape.

According to Mr Rex Mead, managing director of Rivers, the hardware can feed metal of set lengths to others sets of automated machinery such as computerised machine tools.

Engineering companies that have installed automated systems to fashion (for instance by drilling or cutting) metal components under programmable electronic control sometimes find they cannot operate their devices at full speed because the latter cannot receive supplies of raw material fast enough.

The automated sawing systems, which cost about £150,000, are designed to tackle this problem. According to Mr Mead, a computerised sawing system can with one operator do the work of four ordinary sawing machines each of which would require one person.

Conventional sawing machines, which cut to length individual bars which the operator has to load onto the device, can take up to half an hour to react to turn out a different shape of metal. With the Kasto machine, this takes less than a minute.

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## New link-up for futures markets

THE LONDON and Paris commodity futures markets will share electronic price reporting by mid-October. The system, known as Manifest, already links London and Amsterdam. It is also linked to a direct feed from New York and Chicago.

Other price reporting systems from Reuters and IBM are now in use in Paris, but there is often a time delay of a few minutes between bidding and reporting. The new system works in real time, providing price quotations within one-tenth of a second of bidding.

No trading will actually occur between London and Paris on the link, since Manifest only supplies information. However, transactions in Paris will be speeded by the system, since traders there will benefit from the prompt reporting of local prices.

Whenever a deal or bid is made, it will immediately be entered on a high-speed short-hand keyboard specifically designed for that commodity and displayed on the Manifest floor terminals.

Less confusion will result, the London Commodity Exchange says, as traders will merely check the nearest terminal for instantly tradable prices. Mistakes will also be quickly noticed.

## Switch on to printer-sharing

A SWITCH which makes it possible for up to six computers to share the same printer has been developed by Nighthawk Electronics of Saffron Walden, Essex.

The switch will work with virtually any computer with a Centronics interface and its operation is entirely automatic.

The cost of the switch ranges from £129 for a two-line model to £265 for the 6-line version. It operates from a cable or wall mounted mains transformer. Nighthawk is on 0755 40782.

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THE SALES MEETING  
IS IN HAMBURG.

HELLO HERMANN,  
THE SALES MEETING  
IS IN HAMBURG.

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THE SALES MEETING  
IS IN HAMBURG?

HELLO TOM,  
HERMANN CAN'T MAKE  
HAMBURG - PARIS?

HELLO HERMANN,  
TOM'S SECRETARY  
SAYS HE CAN'T  
MAKE PARIS.

CAN YOU TELL  
PIERRE IT'S LOOKING  
LIKE LONDON?

HELLO TOM,  
IT'S DEFINITELY  
LONDON. CAN YOU  
TELL HERMANN?

HELLO PIERRE,  
HAS HERMANN CALLED  
TO CONFIRM LONDON?

NO PIERRE,  
ON WEDNESDAY,  
NOT THURSDAY.

HELLO TOM,  
CAN YOU GIVE  
HERMANN & PIERRE  
A MESSAGE?

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# WORLD OIL BUSINESS

## Way clear for Chevron to justify Gulf deal

BY WILLIAM HALL IN NEW YORK



**BIG OIL ADJUSTS**

At a time when oil prices are sliding down hill. Since the takeover its shares have been shunned by investors and they are no higher today than they were on the eve of the bid, although U.S. share prices have risen by more than a fifth in the interim.

In common with the rest of the international oil industry which is having to adjust to the radically changed outlook for energy prices, Chevron was already pruning its business before it bought Gulf. Now it is having to restructure two businesses at the same time as trying to merge them. It could be argued that Mr Keller's task is twice as formidable as that facing other oil industry leaders, but that is not the way he views it.

He admits that there are "more chess pieces on the table" following the Gulf takeover, but there are also "more options available." He insists that "if we do the job right we should have a leg up on most of the industry" and denies that senior management time

is a completely separate company. On March 14 the Commission lifted its onerous "hold separate" restrictions and cleared the way for Chevron to begin reaping some of the short term financial benefits which come from any merger.

While the year long "engagement" was frustrating in that two major oil companies were competing head to head in several markets, Mr Keller admits that it had some benefits. It gave the 40 joint study teams, set up by Chevron and Gulf, time to think about the kind of company they wanted to create.

Under Chevron's 48 year old Mr Ken Derr, regarded by many as Keller's heir apparent, Chevron has begun to chip away at the corporate fat and excess baggage of the two companies. It has sold off parts of Gulf which the FTC required, such as Gulf's refining and marketing operations in the "sun-belt" states and late last month announced the sale of its shares in Gulf Canada for \$2.2bn. It has agreed to sell

intermediate, the benchmark U.S. crude, has fallen by \$2.50 per barrel to \$27.50. Since Chevron bought Gulf, Mr Keller notes that Chevron's current price projections are 10 per cent lower than they were when it was hatching its bid for Gulf but he plays down the impact.

Aside from the beneficial impact of lower interest rates, when Chevron took a closer look at Gulf's reserve data after the acquisition it found that there was significantly more oil in terms of "probable" reserves, which could be easily upgraded to proven reserves, than it had expected.

Mr Keller plays down the possibility of a collapse in crude oil prices and stresses that even if, heaven forbid, the world price was to drop to \$20 a barrel it would not put Chevron out of business and even Gulf would still be able to cover its financing costs.

If prices did collapse, Chevron and every other oil major would cut exploration spending sharply and since this is a direct charge on the profit and loss account, there would be only a "modest reduction in earnings."

While Wall Street is mesmerised by the impact of softer oil prices on the debt-burdened Chevron's short term performance, Mr Keller argues strongly that investors should be taking a longer view. "Our shares are seriously undervalued because there is none of the potential value in them," says Mr Keller who does not hide his disgust at the short term investment horizons of many U.S. pension fund managers.

He describes the Gulf acquisition as "a complex, variable annuity that greatly enhances the security of our company for the future." It is easily forgotten that this is the company which only five years ago was lifting more than two-thirds of its oil from a single source—Saudi Arabia. The acquisition nearly doubled Chevron's worldwide proved net liquid reserves to about 48m barrels and increased its natural gas reserves by three-quarters to 11,800 cubic feet; about half of the oil and two-thirds of the gas are located in the U.S.

Although Chevron was the company which discovered Saudi Arabia's oil in the 1930s, it does not believe, like some of its partners, that it is owed any special favours in terms of preferential access to the world's biggest oil reserves. Instead it is pinning a lot of faith on exploration in "frontier" areas,



George Keller: "If we do the job right we should have a leg up on most of the industry"

Chevron is undertaking a strategic study of refining and marketing operations in order to look at where the company should be in the 1990s. "There are an awful lot of people in that end of the business" says Mr Keller.

He does not share the view of some of his predecessors that in an ideal world an integrated oil company's crude supplies should balance its refining demand. If, for example, the strategic study group recommends that Chevron should halve the size of its downstream operations, "I have no problem with that" says Mr Keller.

However, he rejects the popular belief on Wall Street that the best move for an oil company would be to get out of downstream operations altogether. "I think that assumes that this business will never recover. I think it will, but I think this is the time for a winter pruning," says Mr Keller. "We are not really interested in staying in any place where we are in the middle of the pack downstream. We have got to be in the upper half because the other guys are going to take a beating."

"If, for instance, we have 4 per cent of a market and we conclude that we really need between 7 per cent and 9 per cent to be competitive, we will probably pull out. But in those markets where we have 10 per cent it may well be very attractive to pick up one or two extra percentage points."

The wisdom of Chevron's acquisition of Gulf should not be judged by the performance of the last 12 months when the company has effectively had its hands tied because of Federal Trade Commission restrictions on what it could do with Gulf. It should now be able to show whether it can make the merger work.

Last year Gulf contributed \$40m, or about 3 per cent of Chevron's \$1.5bn net income, and Mr Keller believes that there is no reason why it cannot increase its contribution tenfold to almost a third of Chevron's earnings by 1988. That sounds impressive, but on closer inspection it does not appear to say much for the performance of the rest of Chevron's business. Either Mr Keller is being overly conservative or Chevron needed Gulf more than Wall Street was led to believe.

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Notwithstanding that, pursuant to the provisions of "Description of the Notes," Banque Indosuez has elected to redeem all outstanding Notes, in the numerical order from 1-40,000 inclusive, on the next interest payment date due July 15, 1985, at par.

Consequently, on July 15, 1985 there will become due and payable upon each Note outstanding the principal amount thereof together with accrued interest to said date at the office of any one of the paying agents named on the Notes.

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Interest will cease to accrue on all outstanding Notes on July 15, 1985.

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May 31, 1985

### RETURNS FOR LAST FIVE YEARS

	1980	1981	1982	1983	1984
Net income (\$m)	2,401	2,380	1,377	1,590	1,534
Return on equity (%)	22.6	20.0	10.6	11.6	10.6
Long term debt (\$m)	1,848	2,035	1,934	1,896	12,972
Capital spending (\$m)	3,599	5,568	4,666	3,330	4,786
Proved oil reserves (bn barrels)	1.7	1.6	1.6	1.9	4.0

being devoted to the merger has meant a loss of momentum at the operating level.

"I would not want to do this for three or four years," says Mr Keller but for six to twelve months, I think it is pretty exciting for somebody to have a little bigger job to do and, boy, the adrenalin has been flowing."

Chevron has inherited a company whose corporate style differs considerably from its own. Whereas Chevron has prided itself on producing its executives from within, Gulf had looked outside for many of its senior staff. Gulf had gambled heavily on finding a giant oil field in the high risk "frontier" areas, and failed. This, together with several major corporate reorganisations had taken its toll on company morale.

For just over a year after the deal was announced Chevron was forced by the Federal Trade Commission to operate Gulf as

Gulf's art deco Pittsburgh headquarters, its oil trading division and international drilling operation, Keydrill.

Chevron has tied up well over half the assets sales of up to \$5bn which it had planned following the Gulf takeover. The money will be used to pay off the \$10bn raised to buy Gulf and to accelerate a reduction in the 48 per cent debt to capitalisation ratio. Prior to the takeover the ratio was 10 per cent and the target is to reduce it to about 25 per cent in the next five years.

Since Chevron bought Gulf, long-term U.S. interest rates have fallen by about 300 basis points, substantially reducing Chevron's financing costs which were running at nearly \$2m a day last year. But while interest rates have moved in the right direction for Chevron, the same cannot be said for world oil prices, which is what is worrying Wall Street.

The price of West Texas

oil is down more than 20 per cent since the takeover. The price of West Texas

### New links for futures markets

THE LONDON and New York futures markets will share electronic trading facilities by mid-1986, according to a report by the American Petroleum Institute (API).

The report, which is a direct result of a study by the API's Futures Committee, says that the two markets are "very similar" and that a link between them would be "a logical step."

The committee, which is made up of representatives from both markets, has been studying the possibility of a link since 1982. It has found that the two markets are "very similar" and that a link between them would be "a logical step."

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### Switch on to printer-sharing

A METHOD which makes it possible for several computers to share a single printer has been developed by a team of researchers at the University of Illinois.

The method, which is called "printer sharing," allows several computers to send print jobs to a single printer. This can save money by reducing the number of printers needed.

The researchers say that the method is "simple and efficient" and that it can be used in a variety of computer systems.

**FT FINANCIAL TIMES CONFERENCES**

## Oil Industry Developments

Hotel Inter-Continental, London 9 & 10 July, 1985

The FT Oil Industry Developments conference will cover prices, the outlook for OPEC, de-nationalisation, the take-over scene in America, the problems of the independents, refining and petrochemicals. To be chaired by Mr John Raisman, CBE, Former Chairman of Shell UK Limited, and Mr Peter Gaffney, Gaffney, Cline and Associates Inc, the conference will include papers by:

<p><b>Mr Robert B Horton</b> British Petroleum Co plc</p> <p><b>Mr Yves Rovani</b> The World Bank</p> <p><b>Mr John H Lichtblau</b> Petroleum Industry Research Foundation Inc</p> <p><b>Mr Antony Craven Walker</b> Charterhouse Petroleum plc</p> <p><b>Mr Michel D Marks</b> New York Mercantile Exchange</p> <p><b>Mr James A Adamson</b> Chase Manhattan Bank NA</p> <p><b>Mr J H de Sola</b> Shell Nederland BV</p> <p><b>Mr Michael Unsworth</b> Scott Goff Layton &amp; Co</p>	<p><b>Mr Robert Evans</b> British Gas</p> <p><b>Mr Pierre Desprairies</b> Institut Français du Pétrole</p> <p><b>Mr Robert Mabro</b> Oxford Institute for Energy Studies</p> <p><b>Sir Leslie Murphy</b> Petroleum Economics Ltd</p> <p><b>Professor A Rørdland</b> Ministry of Petroleum and Energy, Norway</p> <p><b>Dr Frank Schmidt</b> Mineralölwirtschaftsverband eV</p> <p><b>Mr Henry M Rowson</b> Trichem Consultants Ltd</p> <p><b>Mr Richard Johns</b> Financial Times</p>
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## Akhnaten/Coliseum

**David Murray**

**Jessye Norman, the Ariadne, at Covent Garden**

leaps into resemblances to coachman Herr's wicked, mischievous-looking Dresden production (seen at Edinburgh), which was unconsciously funny, Martinelli's singing, and the revolutionary event, *Ariadne auf Naxos*-*Oper*.

Mostly it sounds splendid, as well it might. The Ariadne is a prima donna, a prima donna at the top in the Prologue but later unleashing that magnificent voice to glorious effect — and with more intelligent passages than that. Her husband, the command, Her Bacchus is the lush, reliable James King; the nuance of the bloom has gone from his *Heidenenor*, but reliance on that is not the point. There is something to be grateful for.

Kathleen Battle's Zerbinetta is immensely polished, musical, accurate and pretty. Her coloratura is on the voice you can hear without the pining of any, her arazzen, heart-on-sleeve Zerbinetta. Zerbinetta's heart is not a show here — the business of the production leaves no room for her in her great set — but she does not in what should be but isn't perceptibly her

semi-edification of the Composer in the Prologue. Similarly, the anxious flapping prescribed to Norman Bailey's *Ann Music Master* unfairly conceals his superbly written score.

Perhaps the suppression of the Zerbinetta-Composer report is by design, for the Prologue here emphasizes the small-scale, intimate young Composer-as-rspt-visionary. Ann Murray's winning portrayal, subtle and delicately accompanied by the conductor, Jeffrey Patterson, is a performance in itself, isolated among the professional stage-folk, if not the ultimate degree of mezzo lullamity in the low register.

The first-rate trio of Nymphs, and a first-rate team of Comedians, with Eric Garrett, Kim Begley and Wilfrid Gamage structurally led by the Master of Ceremonies, the dancing Robin Leggate's Dancing Master is a clever study. Tate is generous to his singers, and he points up many untimelinesses, but he is not so generous to his dancers, whose fitness, Nothing sounds brittle, and there is a good, earthy *Schwung* in the comic music;

Akhnaten follows the Gandhian path. He was the first to inspire *Satyagraha* (1980) in claiming to be (in the words of the libretto introduction) "not a 'story' opera but an episodic-symbolic portrait of a historical personality whose visionary ideas dramatically changed the world around him." Akhnaten, Egyptian pharaoh from 1370 BC to 1368 BC, is one of the earliest "reformist" rulers on historical record. Having ascended the throne, he changed his name from Amenhotep IV to Akhnaten to mark his espousal of one god (Aton, an abstract concept symbolised by the sun).

He destroyed images of the old gods, built a new city, ended his reign with his queen, Neferiti, ruled Egypt for 17 years, and was buried in the Valley of the Kings until the threat of barbarian invasion forced dormant conservative forces to opposition. After his death, the older order returned to power, and the king, who was deified, had the hymns to the gods revised, but the hymns to the pharaoh which survived from the period do have made Akhnaten a malleable figure for the artist. The artist is for they show that his concept of monotheism strikingly prefigured that of Judaism.

**Max Loppert**

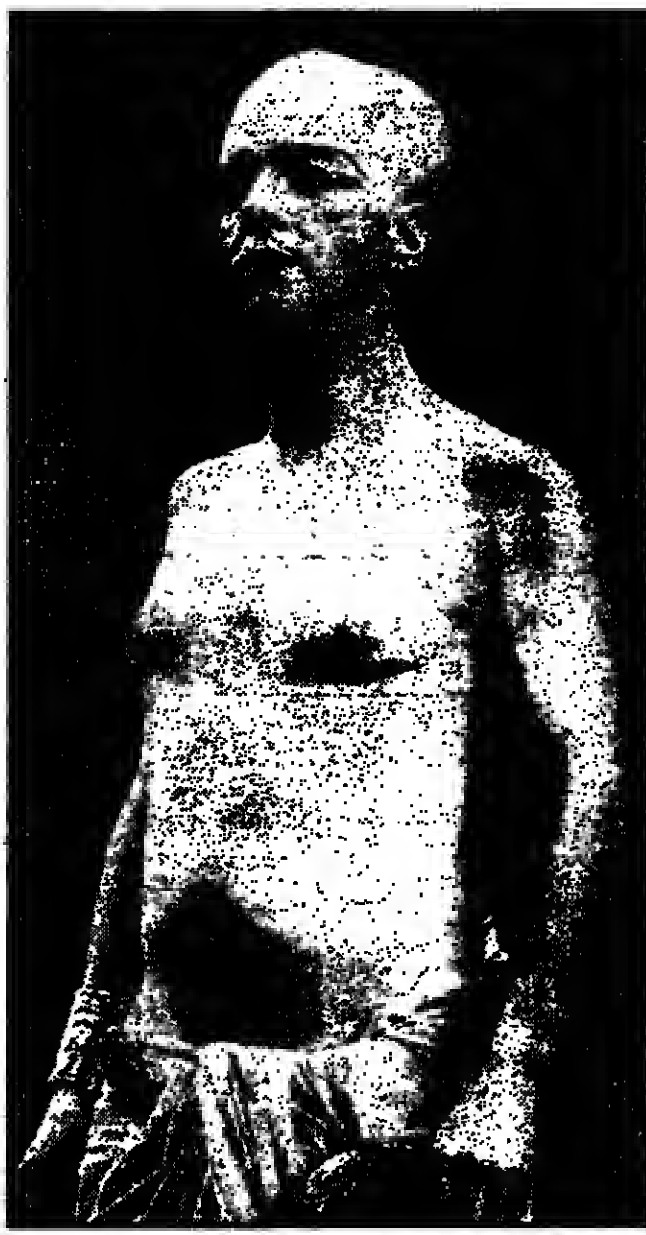
Opera line. The libretto, produced by the composer with the collaboration of his wife and son and fall of Akhnaten in scenes that avoid direct narrative presentation. For his words Glass has drawn on the ancient texts, sung mostly—except for the role of Nefertiti, who sings in the original languages (spoken passages are in English). The intention was clearly to set the sequence of scenes in a timeless context rather than to glorify the use of sung Latin to set the myth of Oedipus.

It is a libretto of procession, pantomime, ritual dance—but no action. To it, Glass's whole musical aesthetic proves applicable. The work has already had followed the work of the American "minimalists" since their beginnings will find that the score of Akhnaten makes advances in the use of the theatrical Glass in its increased command of subordinate elements—the range of available harmonies, rhythms can be compared to the use of voices is at once more ambitious and more conventional. Orchestra (plus harp)—the vocal parts (soprano, violin) and voices (solo and chorus) lap luminously across one another; combinations are light, delicate and sophisticated.

And underlying techniques of scenic organization are essentially those of Glass's original vein—instinctive repetitions, slightly varied, of cell-like statements, building up into an extended sense of trance time. It is these techniques, above all, that will separate the Akhnaten fanatics from the rest of the audience who perhaps overbore themselves with progress of operatic history, and puzzled or even disturbed by Glass's slow-moving, serene, elegantly managed simplicities of the last decade of his long historical sequence.

If the whole of *The Ring* had

It could be, however, that the impression was not an ideally accurate one, for the production by David Freeman — originally seen in the *Libretto* and now seen in *ENO* — was calculated to subvert the style and sense of the score every turn. A composer's note in the *libretto* pardons producers' licence in *ENO*; even so, it should be warned that advance perusal of the *libretto* will prove no guide to what is actually seen in the Coliseum. The director's licence is as implied by Glass's text and as demanded by his score would appear to be one of extreme sparseness — static, carefully stylised and tightly contained. Instead, the Freeman hour fills up the spaces of the music with business of his own invention. The treatment of the music has been rather more faithfully underwritten by Paul Daniel and the *ENO* musicians (not always quite together on the first night). And the cast is excellent, the first tenor being Christopher Robson radiant in the title role (he is presented with elongated head and hermaphroditic breasts), Marie Angel, Sally Burgess (Galahad), Peter Norrington (Gaius), Matheson-Burns, Christopher Booth-Jones and Richard Angus.



**Christopher Robson in the title role of Akhnaten**

## Michael Coyne

eminently energetic I have  
seen Mr. Nihil, with a heavy  
beard, glasses and a flattened  
nose, build and a flattened  
voice, resembles a refined ver-  
sion of Alexei Sayle, and is  
obviously an actor to watch. He  
is a little stiff and formal, but  
rather than carving the wavy  
neck heroic gestures and sym-  
bolic extensions of his own bulk,  
he argues on the façade.  
As is usual since Brook's  
death, the two main characters  
are doubled with Thespie and  
Hippolyta, though in this  
version without much rever-  
beration. Patrick Rycapat plays  
the role of a small, nervous  
cowering languor and plummy  
voice, hitting a good mix of  
effortfulness and disdain in the  
caper. Jimmy Hualey  
is a leopards in a green  
amazon and, as Titania, rolls  
around, not all that exotically,  
in a diaphanous green fairy  
number. John McAndrew is a  
Puck-like figure, a small, quick  
young man with a dumble

The pick of the lovers is Erenora Gordon's Helena, contenting that an undeveloped modern technique with high-pitched and attractive; and Lyrris Spiro belts out Eremis, in the production has not yet achieved a strong rhythm in the quick scene, and the score Culwick as Lysander scores a big laugh when, on being kicked in the groin, he declares: "There's no following in this scene."

And in Nancy Meckler's Leicester Dream last year, the People show were musical mechanicals, now following that example, Mr. Robertson has encouraged the use of the orchestra and the bongos drums whenever the Shakespearean verse breaks into jag-trot. I have a deep-seated aversion to this sort of thing, if it will do, which it is not.

a fascinating first Test, BBC television insisted to ignore the cricket until 12.20. Finally we opened the curtains, letting in all that glaring sunlight and switched on Radio 3 so that we could, at any rate, save half the measure of the occasion.

It has long been true that the best of all possible worlds for Test matches is achieved by switching on the television, turning down the sound and playing the Radio 3 commentary over the pictures. There is, of course, the Brian Johnston problem. It would be heartening to find that the Radio 3 radio commentators, could just once in a while refer to scorer and archivist Bill Frindall as "Bill" or even "Mr Frindall" rather than "Bearded" (short for "Bearded Wonder"). It would be even better if he could

get through a whole session without messages to his officers, and, best of all, if he could stop the Buntstuck with listeners' cakes.

"What is it about these cakes then, Brian?" asked one of his colleagues last week.

"I don't know," replied Johnston.

"Not more than eight times a day, no," said his colleague.

Despite all that, or, to some extent, perhaps because of it, the radio commentators do manage to convey in the course of a Test an odd sensation of relaxed familiarity so that the listener, sitting in his armchair, is sitting in the pavilion, just out of sight of the game, with a friend calling out a description of what is happening on the field. You use that as your primary source and have a sedentary occupation it is quite

---

no hope of following the ball to the outfield, or even following the bowler on his run-up. Today, with wide-angle, anamorphic lenses, a square-leg camera, "inlays" to show the running of the ball, the batsman is the main shot, covers the full field, and of course instant replays including slow-motion, not to mention full colour, the experience of seeing a Test on television is a far cry from the better than watching it live. While the spectators in the stand argue about whether the ball hit bat or pad we at home can distinguish quite clearly from the TV screen.

The expertise of the BBC's OB technicians is still in my

**The audience has not changed. What is wrong with the writers and producers? Thank goodness our cricketers can still entertain us**

experience, unmatched anywhere else in the world. So far this year I have not once seen a cut in an out-of-focus shot, nor once seen that amateurish focus-pulling which keeps everything consistently fuzzy as it tries to follow something in long-shot; nor once had the frustrating experience of moving along just behind the action instead of with it—errors which you will always see sooner or later (usually sooner) when watching sports from any other country, even including the US where televised sport is generally very good.

dance scene in the autumn. In particular BBC's "Summer Season" of single plays is showing vividly why Michael Grady was so loth to have them on BBC's stage. The best of the long Term Memory, by M. J. Read, had a deep sadness buried at the centre of its story about a solicitors' clerk who longed to be a dance band musician. I have seen this play in performance I have seen from Patrick Troughton. But it was yet another of those dramas which feel as though they have been worked up from a social worker's case-notes.

The second, *Rochel and the Rabbi*, was so embarrassingly inferior to the best performance I have seen from Patrick Troughton. But it was yet another of those dramas which feel as though they have been worked up from a social worker's case-notes.

to conclude that there is now one standard for men, and another, much lower, for women. It is inconceivable that such stuff would have got past an editor as discerning as I have been written by a man. It is, surely, desperately condescending to institute such dual standards; women cannot possibly want such a patronising form of address. And, incidentally, anyone else wondering why the face of the mothering nun was so carefully hidden? It could not have been, could it, that the raunchy Roarettes had as much to do with men and their motorcycle stunt work?

Why is it unthinkable that, instead of this sort of work, television should produce single dramas able to appeal to the public as powerfully as *Brief encounters* or *The Third Man* or *On the Waterfront* or *High Noon*? The audience has not changed, what is wrong with the writers and producers? Thank goodness our cricketers can still

## Theatre

## NETHERLANDS

wards rock, country and hot gospel. No child is known to have asked for this money back. (B34 B184).

Yea, the *Black and Tan* and *Black and Tan* 1936 musical is a genuine tonic. American jazz dance collides with the Ballets Russes. Gents in white tuxedos, and the *Black and Tan* are unhappy and the *Black and Tan* ballet for Slaughter on Tenth Avenue. (B34 B184).

*Black and Tan* (Drury Lane). No British child has been found for New York's Jerry Arbuckle, but David Merrett's top-dancing extravaganza has been rapturously received. *Black and Tan* is a real find as Peggy Sawyer, and Margaret Courtney have a field day (B35 B108).

*Black and Tan* (Aldrich). Slick, efficient and enjoyable revival of the 1936 musical hit. *Black and Tan* is a real find with Robert Lindsay in the Lepidopteran role emerging as the best new musical star since Michael Crawford. (B35 B108).

**Richard III** (Barbanic): Last year's Bedford-upon-Avon production with Antony Sher demonically exciting as Richard in the RSC repertory by Bill Alexander. Plays in history with Roger Rees as Hamlet and Kenneth Branagh as Henry V. All new season seeing. (628 6795, credit cards 628 6735).

**Other Places (Duchess):** Colin Blakey and Dorothy Tunstall in a remembered scene from *Chinook* in which the two Alaskans in which a victim of sleeping sickness awakes after 29 years; Victoria Station, a funny throw-back to the days of the railway; and *My Last Year's One for the Road*, a chilling piece of intimidatory police state propaganda with its subtle suggestions of the possibility of future state intrusions of political danger. (1988/8243)

**The Government Inspector (Oliver):** Strong and intimate review with under-equipped TV comic Rick Mayall playing the posser as a shrieking nose-picker. Richard Eyre's production is a little over-the-top in its tension or true delirium but, with John Guttery's imposing design of banistered stairs, it has a certain sort of monumental starkness as well as nightmarish tedium. New translation by Adrian Mitchell. (1988/8244)

**Jumpers (Aldwyn):** Confident about some revival of Tom Stoppard's glib-

has passed away, with Paul Robinson  
a more earth-bound George Moore  
It then was Michael Hordern, Fol-  
ly Kandel delightful as his retired  
musical comedy wife. Peter Wood  
directs. (838 6404, credit cards  
379 6233).

## CHICAGO

genre with its backstage story in which the songs are used as end-justifies-the-means rather than emotions. (328 6200).

**Sunday in the Park with George** (Booth): Inspired by the Seuss, this musical is a celebration of fashion's musical with dots and dashes of song that end too soon but work well. (328 6200) **Stravinsky** (pretty sad) and **James Lapine's** book which changes gears in the second act. (328 6200).

**La Cage aux Folles** (Palace): With some tuneless Jerry Herman songs, **Harvey Fierstein's** adaptation of the French musical manages to make the first two acts of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (719 4400).

**Torch Song Trilogy** (Helen Hayes): **Harvey Fierstein's** touching and funny recollections as a drag queen in New York's East Village. (328 6200) **Bernhardt** role on Broadway today. (944 9450).

**forced effort**

**Takarazuka All-Girl Revue:** The Matador of Cordoba and Lumière. This 100-strong troupe is famous for its spectacular musicals and elaborate effects. The antithesis of Kabuki, where girls play the men's roles, as a uniquely Japanese phenomenon, Takarazuka are worth seeing and provide an entertaining evening if only for curiosity value. Detailed English programme notes assist the following of often highly improbable plots. Takarazuka Theatre, near Imperial and Palace Hotels and Ginza. (501.1171).

**WASHINGTON**

**Count of Monte Cristo (Eisenhower):** The second production of Peter Sellers' new American National Theatre company is the James O'Neill version of this swashbuckler. (2543670).

## Saleroom/Colin Amery

## Record price for vases

ceramics in this sale ensured that it was not affected by the recent flood of illegally exported wares from China. The total for the whole sale was £1,336,016 with premium and some 14.6 per cent of lots were unsold.

At Christie's a modest sale of English water colours and drawings reflected continued buoyancy in the market. A good example of the work of Archibald Thurnburn, *A Millard Bay* by Thurnburn, almost a classic of its type, sold for the lowest estimate and went in dealer Malcolm Innes for £10,800.

An interesting album of drawings, water colours and prints by members of the London Sketch Club that had been presented to John Dingwall Hassall in 1899 was sold by his widow for £2,700 to the dealer Beutles. The London Sketch Club was founded in 1898 and included many contemporary cartoonists, amongst them Cecil Aldin and H. M. Bateman. The same dealer paid £1,944 for an album of water colour work of William Heath Robinson entitled *The Baby Seller*.

The total for this sale, which included 2 series of water colours of Venice belonging to the Canaletto expert J. G. Link, was £72,948 and some 11 per cent was brought in.



## UK NEWS

## Industrial output rises to peak level for 5 years

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

UK INDUSTRIAL output rose in April to its highest level for more than five years, according to the latest figures from the Central Statistical Office yesterday.

They showed that total output, including oil and coal, has at last climbed back to the average level reached in 1979, at the peak of the last business cycle. However, output is still slightly below the level reached in the second quarter of 1979, when production was boosted by the recovery from the strikes in the so-called "Winter of Discontent".

In the three months to April, total output grew by 2½ per cent, compared with the previous three-

month period, partly as a result of the recovery of coal production after the ending of the miners' strike.

Manufacturing output also increased in the latest three months, to a level which was 1.2 per cent above the figure for the previous three months and 2½ per cent higher than a year earlier.

In April, manufacturing output settled back slightly from the buoyant March figure to a level which is still 7 per cent below the average for 1979. The figures show that in the manufacturing sector, the fastest increase in recent months has been in the capital goods and intermediate goods categories.

That is consistent with recent

survey evidence showing that company investment has been moving ahead quite rapidly. In the three months to April, production of capital goods was 6 per cent higher than in the first quarter of last year. Production of intermediate goods, which includes components, also recovered in recent months - but only to a level about the same as that for this time last year.

The latest production figures seem to confirm the optimistic picture of continued recovery suggested by the most recent survey by the Confederation of British Industry. That showed that order books had reached record levels, but there was some expectation that the pace of growth in output would slow.

That is consistent with recent

## BSC back to profit after pit strike

By Andrew Fisher

BRITISH STEEL made "a modest profit" after interest in the first two months of this financial year, after recovering from the impact of the miners' strike, Sir Robert Haslam, the chairman, told the House of Commons Trade and Industry Committee yesterday.

The strike cost BSC some £180m and delayed completion of its corporate plan, which Sir Robert said "we are anxious to get clear by the end of July." He declined to be drawn on a possible closure of the Ravenscroft strip mill in Scotland, already reviewed by the Government.

Without the miners' strike, BSC would have made a small profit after interest for the financial year to March 31 1985, considerably better than the Government's target of break-even before interest.

Questioned on the planned closure of the Tinsley Park engineering steel plant in Sheffield, Mr Gordon Sambrook, head of the BSC general steel group, said this would save some £12m a year in fixed costs.

There had been major productivity improvements at the plant, employing 800 people, but demand for special steels was expected to remain flat or slacken, he said. The UK market for engineering steels had dropped in less than a decade by 1m tonnes from 2.5m.

The cost to BSC of the closure would be recovered in just under a year. Mr Sambrook was confident all the work could be transferred to other BSC plants, but even with the closure, there would still be too much UK capacity.

Inquiry proposes controls on cash gifts to parties, writes Peter Riddell

## 'Declare donations,' says report

A VOLUNTARY code to govern donations to British political parties by companies should be supplemented by changes in the law to provide a statutory limit on parties' expenditure in general elections.

Proposals for closer consultation by companies with shareholders and greater disclosure about political contributions generally are recommended in a report on company donations to political parties produced by a working group of the Constitutional Reform Centre, a research and lobbying group whose president is Lord Scarman, and the Hansard Society for Parliamentary Government.

The main theme of the report is the position of companies in making donations to parties. It notes that less than a quarter of medium and large companies make such

contributions, although they account for 55-60 per cent of central Conservative Party funds.

The members of the working party believe that "the financing of the political process is too dependent on money provided by institutions such as trade unions and companies." But they believe that it would be "liberal and ineffective to prevent company donations" and instead have proposed a voluntary code in the hope that boards will recognise that "a decision to give to a political party is a decision distinct in kind from other decisions of management and requires special validation."

The report notes recent legal cases (particularly *Simmonds v Hefner* of 1983), which indicate that a company cannot rely solely on a general objective in its memorandum

and articles of association to authorise political donations, and there should be explicit authorisation as well as an ability to show that a donation is in the company's interests.

The working party believes that, within the current law, validation for such donations should be by shareholders at an annual general meeting and that the board of a company wishing to make political donations should place before its shareholders a statement of why it considers such an action to be in the interests of the company, and should seek approval of the statement at an AGM at least once during the life of a parliament. Although such a statement should be regarded as authorising political donations for the period of its validity, some companies will wish to poll on each individual donation as well.

The working party also recommends that companies that make political donations should keep them in proportion, neither giving too much in relation to their own turnover and profits, nor accounting for too large a part of a party's income.

A further recommendation is that companies that make political donations should do so openly, and without the use of conduits. That is proposed in order to increase openness and to ensure that all donations are declared that companies know to be party-political in purpose. That is to deal with donations given via intermediary bodies and payments disguised as trading items such as the purchase of advertising space or the supply of services at favourable rates.

## Alcohol sales forecast to rise

BY LISA WOOD

THE GROWTH in the consumption of alcohol that has occurred over the past 30 years will continue into the 1990s but more slowly, according to Staniland Hall, the business forecasters.

Britons drink on average the equivalent of 12.5 pints of 100 per cent alcohol a year and that is expected to be about 14 pints by 1990, Staniland Hall says in a report on the UK market for beer, wines and spirits.

"This is still much lower than in most (European) continental countries," the report says. By comparison, Belgians drink 18.7 pints per head of 100 per cent alcohol, the French 23.9 and the West Germans 21.5.

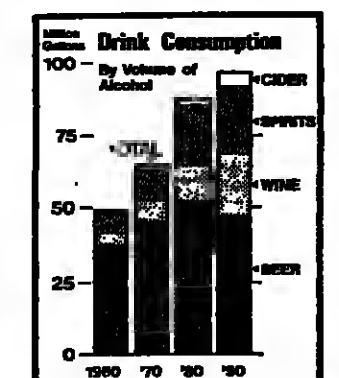
The report states that, in Britain,

"the general tendency is for modern life to move away from heavy industry and large volume drinking to lighter industry and a lighter style of drinking and of drinks."

In a separate report, Market Assessment Publications says that unless sherry and port can widen their appeal, their future does not look promising.

Sherry in particular, the report states, is suffering from the trend away from short, sweet drinks, while port sales are still seasonal. "Unless port can be promoted as an all-year drink, further increases in consumption will be limited."

The UK Market for Beer, Wines and Spirits to 1990: Staniland Hall, 42 Colebrooke Row, London N1. £125.



Product Group Report on Fortified Wine, Market Assessment Publications, 2 Duncan Terrace, London N1. £165.

## BS pays £35m for late delivery of oil rig

BY IAN RODGER

BRITISH Shipbuilders (BS) has paid a £35m penalty for the late delivery of a £70m oil rig to British Petroleum built at the Scott Lithgow yard on Clydebank, Scotland.

But state-owned BS remains in dispute over the yard's assets with Trafalgar House, the shipping and construction group that bought Scott Lithgow in March last year. Mr Norman Lamont, the Industry Minister, said in answer to a parliamentary question this week that the auditors of BS and Trafalgar House "have been unable to reach agreement" on the Scott Lithgow completion accounts.

At the time of the sale, BS agreed to make a provisional £32m payment to Scott Lithgow "as to increase the net assets to a specified amount." That amount was to be adjusted, "dependent on the net asset value shown by the audited completion accounts."

BS also agreed to reimburse Scott Lithgow for repair costs to certain leasehold properties, estimated to be about £2m.

Mr Lamont said the dispute had been referred to an independent expert for determination as agreed under the terms of the sale.

The £35m payment was made under another provision in the Scott

Lithgow sale, stating clearly that BS was liable for any penalties for late delivery of an oil rig for BP that was only partly built at the time.

Mr Graham Day, chairman of BS, said yesterday that the corporation's results, due to be announced on July 24, would show the trading loss to be "a little bit better" than previously forecast. Brian Groom writes.

Since November, BS has said the loss is not expected to exceed £50m in 1984-85 after £161m the previous year. The bottom-line loss will include exceptional items such as the cost associated with the BP oil rig built at Scott Lithgow.

Mr Day said he was "reasonably confident" of better results this year. He also said BS was on course to achieve the privatisation of warship yards by its target date of March 1986.

Productivity increased by about 5 per cent last year, which Mr Day said was "pretty remarkable" in a depressed world market. Orders increased by 72 per cent.

Mr Day said he hoped there would be no more redundancies but he could not guarantee that, given the state of the world's market. When privatisation of the warship yards was completed, BS would be down to 10,000 employees.

## Minister condemns U.S. legal moves on high-tech exports

BY WALTER ELLIS

MR GEOFFREY PATTIE, Britain's Minister of State for Information Technology, spoke out strongly yesterday against renewed attempts by the U.S. to apply its domestic laws on the export of electronic equipment and technology outside America.

Speaking at a Financial Times conference on world electronics in London, Mr Pattie said: "This is a claim which neither the United Kingdom nor, I suspect, any other country can accept."

"I therefore very much regret that, despite the representations of all of the main allies of the U.S., the Export Administration Act seems likely to be renewed in a form which will continue to permit the extraterritorial application of export controls."

America had shown itself more willing to listen to its friends recently, the minister added, but "a long-term solution [to difficult cases] is still dependent on the U.S. accepting a more modest view of the limits of its jurisdiction and for this to be reflected in future legislation."

Dr Stephen Bryen, deputy assistant secretary for international economic trade and security policy at the U.S. Department of Defense, touched on a related theme when he spoke over lunch about licensing in the export area.

The Defense Department, he said, was now looking at ways of simplifying its high-technology licensing system so that, instead of examining every single licensing application, the department would compile a list of "verifiable end users." The Bank of England, for example, should not have to have its license renewed each year, Dr Bryen said.

Viscount Etienne Davignon, former vice-president of the European Commission in charge of industrial affairs, energy and research, and conference chairman, observed that standardisation in the field of infor-

FINANCIAL TIMES  
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CONFERENCE



Viscount Davignon: "Common standards essential"

mation technology was essential if international co-operation was to hold any significance. The existence of national standards was a means of maintaining a captive market without admitting it, he said. Global isolation would be the result of a failure to establish clear links between information networks.

Mr Malcolm Penn, vice-president of Dataguest and director of the London-based European Semiconductor Industry Service, concentrated on the outlook for the world semiconductor industry, which, he said, had gone through a "catastrophic" period last year as a result of reduced demand, oversupply and plunging prices.

One reason for the collapse, Mr Penn said, had been an extraordinary surge in investment in semi-

conductor manufacturers. Between 1977 and 1983, the amount of venture capital injected in the sector had risen from \$600m to \$1.9bn, with little impact on the technology. Investment had simply run amok, leading to overcapacity on the market.

However, while he expected 1985 to show about an 11 per cent fall in the worldwide semiconductor market, for 1986 he forecast a growth of 18 per cent. The semiconductor industry always bounced back.

Mr Kasper Casseus, chairman of IBM Europe, said certain conditions had to be met if Europe was to participate fully in the growth of its own and the world's information technology industry. Those included a heavy emphasis on research and development, combined with improved cross-border co-operation to minimise duplication of effort; promotion of a more homogeneous European marketplace through the removal of non-tariff barriers; and more liberalised telecommunications policy.

Mr Philip Hughes, chairman of Logica, told the conference that Europe's computer services industry was growing less fast than its competitors in the U.S. and Japan. Europe was also losing its share of the vital software market, and only one company was among the top ten software/services suppliers in every western European country: IBM.

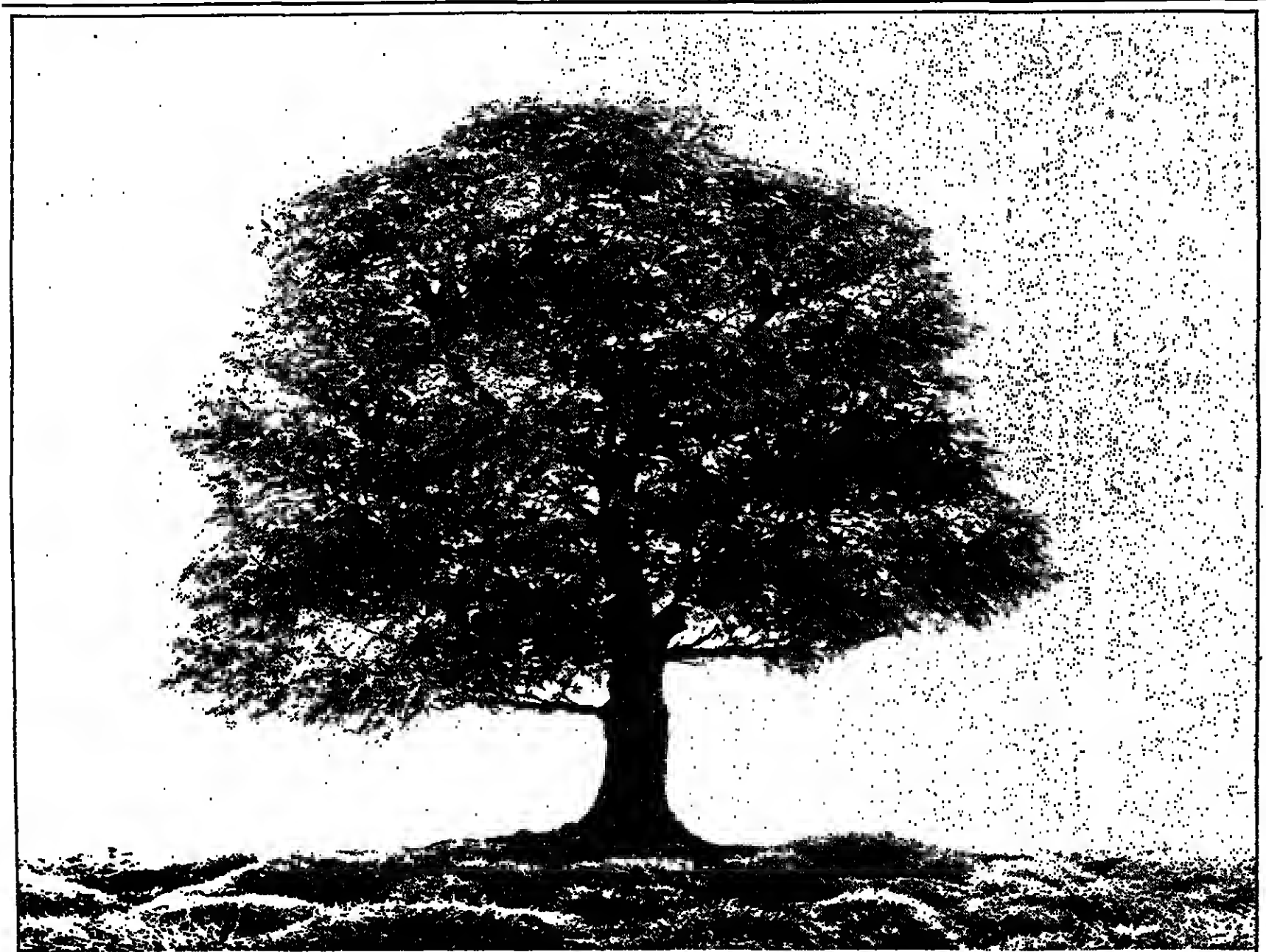
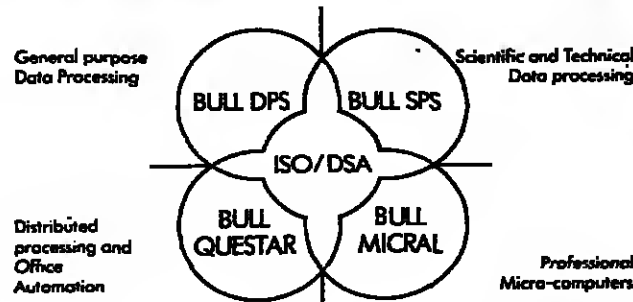
The sheer size of the American information systems market was emphasised earlier by Mr Robert Casale, executive vice-president of AT&T.

This year, he said, American businesses would spend more than \$250bn on information products and services. About 44 per cent of the total would be spent on data processing products and about 7 per cent on telecommunications equipment. AT&T's traditional market segment.

The company learned lessons by using agents in the United States. The U.S. agent used the gamma cameras to offer hospitals a diagnostic equipment package, but the Scottish company's equipment would often lose out in a compromise agreement in which one of the agent's products had to be dropped in the negotiations.

"The timing for this U.S. expansion could not be better. The dollar is right and the size of the U.S. market equals the rest of the world put together," Mr Woods says.

The setting-up of the Montreal sales and service subsidiary comes as the company has won a C\$800,000 (\$244,234) order from Beauville Hospital in Quebec for two gamma cameras and one computer.

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## UK NEWS

# State benefit change attacked in Commons

By MARGARET VAN HATTEN

THE GOVERNMENT'S decision to exclude child benefit from its general uprating of social security benefits in line with inflation came under concerted Opposition attack in the House of Commons yesterday.

Announcing the annual uprating of benefits, Mr Norman Fowler, Social Security Secretary, said that child benefit would rise by only 15p a week - an increase of barely 2.2 per cent, while pensions and unemployment benefits would rise by 7 per cent and supplementary benefit by 5.1 per cent.

The Government, he said, felt benefit should be maintained for all children but it gave higher priority to helping families on lower incomes. With this in mind, it was increasing family income supplement for families with older children by up to £3 a week more than was needed to keep in line with inflation. But the decision not to index child benefit, he later confirmed, would bring a net saving of £175m in a full year.

Mr Michael Mearns, Shadow Social Services Secretary, immediately challenged the figure. The Government, he said, had targeted women and children as the first losers in its Green Paper (consultative document) on social security and would deprive them of £220m in a full year.

It was, he said, a sign of worse to come - "the Government would rather cut cash to children than cut tax pence to the rich."

Other main points in yesterday's announcement include:



Fowler: priority for low-income families

● 7.1 per cent increase in pensions, unemployment benefits and family income supplement, which the Government is pledged to maintain in real terms.

● 5.1 per cent increase in supplementary benefit, which would match the retail price index, excluding housing costs for which benefits are received.

Mr Neil Kinnock, leader of the Labour Party, said the proposals in the Green Paper would impoverish and divide the whole country.

Dr David Owen, leader of the Social Democrats, warned that the Government's proposals to end the state earnings-related pensions scheme (SERPS) would throw pensions back into a political cauldron in which pensioners would be the innocent victims.

# Scientists call for cut in cost of Cern

By Raymond Snoddy

BRITAIN should pull out of the European Organisation for Nuclear Research (Cern) after 1989 unless the cost of membership can be significantly cut, a committee of UK scientists recommended yesterday.

The committee, set up by Sir Keith Joseph, the Education Secretary, found that the UK's contribution to Cern - set at £37.5m for 1985-86 - meant that other important areas of research were being underfunded or neglected.

Cern, Europe's oldest scientific collaboration project, which brings together 13 states, spends about £220m on the "mysteries of the infinitely small." It has a world reputation as a builder and operator of particle accelerators for atom-smashing experiments.

Britain pays 16 per cent of the costs of Cern, the third highest contribution after France and West Germany.

The committee, chaired by Sir John Kendrew, said the UK would be looking for progressive reductions in its contributions to Cern, reaching a total of 25 per cent in 1991-92.

Domestic spending on particle physics should also be cut by 25 per cent by 1990-91, according to the inquiry, carried out jointly by the Advisory Board for Research Councils and the Science and Engineering Research Council.

Sir John said that Cern should either seek more members or save money by "building a new machine every 15 years instead of every 10 years."

# Austin Rover plans onslaught

Arthur Smith explains why sales are at the core of Austin's Rover's problems and how the deal with Honda might change its fortunes.

AUSTIN ROVER, the volume car subsidiary of state-owned BL, has called all its dealers to a meeting at the Longbridge car factory, Birmingham, tonight where it will unveil details of what one executive described as "our biggest ever sales onslaught on the UK market."

Television commercials will start tonight and run right through the next 10 weeks, peaking in August, the key month of the new registration year when around 20 per cent of annual sales are made.

BL's volume cars company which last year jumped into the top 20 UK advertisers with expenditure of more than £2m is likely to top that figure this year. Dealers will be left in no doubt about the importance of this campaign which is likely to be backed with cash for sales incentives.

Indeed, sales are at the core of the Austin Rover's problem and the cause of more than six months spent by various government departments dissecting the latest five year corporate plan, approved this week.

The analysis is simple: Austin Rover is not selling enough cars to gain the volume throughput at its two major assembly plants at Longbridge and Cowley, Oxford, to generate sufficient profit to finance the scale of investment required.

The company has taken all the painful actions to reduce the cost base, close factories, shed labour, raise productivity and invest in the latest flexible manufacturing systems. Austin Rover could start to trade profitably at sales of around 435,000 a year but that would require a UK share of a little over 19 per cent on a market projected this year at around 1.72m.

Last year sales at £23,000 returned a £36m trading loss. If Aus-

tin Rover were able to hit a sales figure of around 800,000 it could generate the profits to finance its current investment programme. The big impermissible was and remains when and how the present gap can be filled.

Alarm bells were set ringing among those considering the corporate plan in Whitehall and Westminster earlier this year by Austin Rover's failure to make the long awaited sales breakthrough. The company entered the year with the powerful model range - Metro, Maestro, Montego - it has always argued was the precondition for advance.

The latest figures show, however, that up to the end of May Austin Rover had improved only marginally with total sales up by only 3,500 and market share at 18.38 per cent against 18.03.

Admittedly the performance has to be judged against what is a cut-throat market with importers still gaining market share and Ford and General Motors offering dealer incentives. It seems likely that Austin Rover has had to sacrifice profit margins through advertising and incentives just to hang on to what it already holds.

Nor is the picture any brighter in Europe, a crucial sector if Austin Rover is to reduce its heavy UK dependence. Sales last year slipped below the 80,000 of 1983 and seem unlikely to make much headway in a fiercely competitive market clouded by arguments about exhaust emission controls.

mooted but the details have still to be negotiated and Honda seems to be taking a very cautious approach.

It seems possible that the Balade, the Honda version of the Rover 200 model assembled at Longbridge could go into production at the Birmingham plant next year. But Honda suggestions that initial volume might be only around 4,000 to 5,000 a year would do little for Austin Rover.

Ironically, should Honda warm to the idea of Longbridge assembled models which, assuming they had sufficient UK content, would escape the present gentlemen's agreement on Japanese imports, Austin Rover would have introduced yet another competitor into its home market.

Honda, which has so far maintained a public silence on its long-term intentions in the UK, has a strong negotiating hand. It has acquired a 330 acre site in Swindon, ostensibly for pre-delivery inspection of Honda-badged cars and for assembly of engines going into those vehicles and the current Rover 213.

But the long-term strategy could be to establish during the 1990s a full car assembly operation from which to attack the European market. For the present, Honda can operate on an experimental basis, initially handling Japanese engines but progressively turning to UK suppliers and eventually moving towards local machining and manufacture.

For no equity stake or capital outlay Honda has in Austin Rover an assembler of its cars to assess market acceptability and potential. At Swindon it can establish a management base to obtain a European presence and strengthen its dealer network while keeping all its options open.

# BBC to reorganise television channels

By Raymond Snoddy

THE BBC is planning a fundamental reorganisation of television management which would result in the abolition of the present system of separate controllers for BBC 1 and BBC 2.

Mr Bill Cotton, managing director of BBC Television, wants to have a new system of controllers responsible for programme areas such as drama and sport rather than channels.

The proposals are expected to go before the board of governors next month for a decision in principle amid growing signs that they are likely to be accepted.

Implementation of one of the most radical shake-ups in BBC television management in recent years would, however, take longer.

Mr Cotton's plans, which have been under consideration for months, received a boost in the review of the BBC's efficiency carried out by Peat Marwick Mitchell, the management consultants.

Peat Marwick welcomed the proposals "in as much as they redress the real problem of fragmentation in programme departments."

The present controllers of BBC 1 and BBC 2, Peat Marwick pointed out, have 22 different programme sources to choose from. Four or five programme controllers, Peat Marwick suggested, could reduce over-specialisation in programme departments and increase the flexibility in using programme-making capacity.

# Spending on export credits rises £123m

By PETER RIDDELL, POLITICAL EDITOR

GOVERNMENT support for the Export Credits Guarantee Department in the current financial year is being raised by £123m, or nearly a fifth, only three months after the original estimates.

That largely reflects the department's exposure to increases in interest rates.

Revised and summer supplementary estimates, presented to parliament yesterday by the Treasury, in total amount to a net increase of £748m in public expenditure. That consists of £258m in betterment from within existing programme totals, some £300m from increases in programmes charged to the contingency reserve and £140m representing an increase in the public expenditure planning total.

Among the other supplementary estimates, the Treasury is seeking £270m additional provision to pay agricultural levies and customs duties to the EEC, roughly one month earlier than normal. That has become subject to intense controversy in view of Government's Bill on EEC payments published last Friday.

In addition, the Government is seeking £128m to finance increased intervention buying of cereals and

butler to take account of revised forecasts of purchases.

● The Public-Sector Borrowing Requirement (PSBR) in May is provisionally estimated to have been £1bn, the Treasury said yesterday, Max Wilkinson writes.

That takes the cumulative borrowing requirement for the first two months of the current financial year to £2.4bn, compared with £3.6bn in the same period last year.

The borrowing figure was close to City of London expectations. The May PSBR is likely to have benefited from the proceeds of the British Aerospace share sale, but seasonal influences contributed to keeping it relatively high.

It is extremely difficult to tell at this stage of the year whether any month's PSBR figure indicates that the Government's finances remain on the course laid down at the time of the budget in March.

Nevertheless there are some worries in the City that the strength of the pound which will tend to reduce the sterling value of oil revenues, and the higher than expected inflation figures, will put pressure on the Government's finances later to the year.

# Funds of NUM stay in Dublin

THE SEQUESTERS and receiver of the assets of the National Union of Mineworkers (NUM) and the union itself have failed to gain control of £2.75m of NUM funds frozen in a Dublin bank.

The Irish High Court decided yesterday that, for the time being, the money should remain frozen in an account with Bank of Ireland Finance.

Mr Justice Donal Barrington rejected the claim to the money made by the sequestrators, four partners in accountants Price Waterhouse, because, he said, sequestration was a foreign penal order that would not be enforced by the Irish court.

SCOTTISH clearing banks are threatened with their first national industrial action for more than 50 years over a 6.5 per cent pay offer.

The Federation of Scottish Clearing Bank Employers and the Banking, Insurance and Finance Union are due to meet tomorrow.

Mr H. P. BULMER, the Hereford cider maker, is to distribute Orangina, France's best-selling soft drink, in Britain.

The venture is part of Bulmer's strategy to reduce its reliance on cider, sales of which are now static after tremendous growth to the early 1980s. The brand is owned by Pernod-Ricard.

SIR ROBERT ARMSTRONG, head of the Home Civil Service, yesterday took the unprecedented step of publicly defending the Prime Minister against accusations that she fills top Whitehall jobs with political sympathisers.

Sir Robert denied suggestions that there was a "process of politicisation at work to senior appointments to the public service" in Britain.

FRANES TOURS, the family-owned coach and travel agency group, is expected to announce shortly the sale of its chain of 40 retail shops.

Thomas Cook, the Midland Bank subsidiary, is expected to buy the British Caledonian's Blue Sky retail division last week and the acquisition of the Franes chain would bring the Cook retail chain to 400 outlets, seen by the industry as the optimum number for national UK cover. A price tag of between £2m and £3m is expected for the Franes chain.

MR DAVID GARLICK has been relieved of his post as group chief accountant of Barclays Bank. A bank spokesman said there had been no question of misbehaviour, but he declined to give the reasons.

SEVENTEEN Conservative MPs voted against the Government over its plan to expand Stansted airport in Essex as London's third airport. They were concerned about noise and the effect on regional airports.

Despite the rebellion, the Government easily defeated opposition amendments in a debate on its airports policy.

SALES of unit trusts reached a record high in May, helped by the launch of 14 new funds, according to the Unit Trust Association.

The sales of new units in May rose to £274.6m, £100m more than in April. The value of units cashed by investors fell by £50m to £148.1m.

The net new investment in the sector of £226.5m was a record and boosted total funds under management to £16.8bn.

# Lawson says Bank set JMB rescue terms

By DAVID LASCELLES

MR NIGEL LAWSON, the Chancellor of the Exchequer, yesterday distanced himself from the Bank of England's handling of the rescue of Johnson Matthey Bankers only 48 hours before he is due to make an important statement about banking supervision in the UK.

In a letter to Mr Tony Blair, the Labour MP who has been pressing the Chancellor over the £100m deposited by the Bank with JMB to aid its funding, Mr Lawson said: "The Governor of the Bank of England has traditionally enjoyed a large measure of independence in these matters. It is his responsibility to reach a judgment in individual rescue cases and, in doing so, the funds which he commits are the Bank's own resources and are not funds voted by parliament."

Mr Lawson's letter and his overt distancing from the Governor of the Bank seem certain to raise the political temperature on the issue ahead of the Chancellor's imminent statement on banking regulation in the light of the JMB affair.

In a reply to Mr Lawson last night Mr Blair, one of Labour's

Treasury team, said that the conduct of both the Bank and Mr Lawson had been "secretive and evasive to a quite unacceptable degree." He said that Mr Lawson was accountable to parliament for the governor's actions and he should not try to shuffle off his responsibility on to the governor.

Mr Lawson will tomorrow be reporting to the Commons on the results of a six-month inquiry into banking supervision in the UK by a committee set up by the Treasury and the Bank after the JMB affair. It is likely to recommend changes, including a more active role for bank auditors in scrutinising the activities of banks.

The Bank will also tomorrow be releasing its version of the JMB events in the form of an annex to its annual report.

The £100m deposit is to be capitalised as part of the restructuring of JMB. In addition, JMB needs a capital injection of £85m to cover its losses, half of which is coming from the Bank and half from a group of UK banks.

# Nivison joint venture

By JOHN MOORE, CITY CORRESPONDENT

R. NIVISON, the London-based stockbroker, has formed a joint company with Bank Cantrade, the Swiss bank. The new company will be a subsidiary of Nivison and will become a limited corporate member of the London Stock Exchange.

Bank Cantrade will own 25 per cent of the new subsidiary with Nivison holding the balance of the equity. Once Stock Exchange rules are finally relaxed and outside interests will be able to own up to 100 per cent of member firms, Bank

Cantrade is expected to lift its stake to near 50 per cent, while Nivison intends to retain a controlling stake.

The new company will provide international financial asset management and advisory services as well as securities dealing and settlement.

Nivison, founded in 1886, does not intend to make markets in securities and will be concentrating on developing the agency side of the business.

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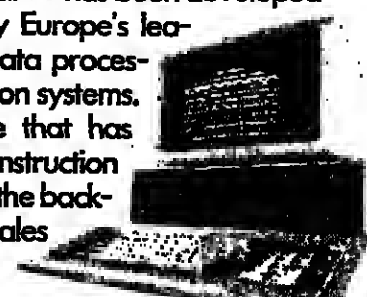
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Wednesday June 19 1985

## Battles over spending cuts

WHEN THE Chancellor of the Exchequer provided a contingency reserve of more than \$5bn in his March budget plans, ministers may have hoped for their first summer since coming to office free of the usual agonies over public spending, but readers of the small print were already noticing that the large reserve was there for a good reason. The public sector pay assumption looked more than usually over-ambitious. The oil revenue projections, cautious in previous years, looked exposed in a year in which both the oil price and the dollar looked unsustainably high. Interest rates, by contrast, have proved only too sustainable.

As a result, the reserve is almost entirely pre-empted before any really unexpected contingencies have had time to occur. The effort to repair what appears to be dangerous breaches in fiscal discipline will give ministers the usual uncomfortable summer. The discomfort will be increased by the knowledge that the Government's public standing has dropped and that time is running short to find more for tax cuts.

This annual ritual has probably done more than anything else to undermine the public standing of the Government. Ministers have earned all the odium of ruthless economy without actually achieving the savings which might make it seem worthwhile. The realisation of this fact already seems to be affecting government rhetoric: ministers take credit for job saving or job creation, while the Chancellor tells that the targets for public borrowing, like those for Sterling M3, are not written on stone.

If this simply amounted to an effort to put the best possible face on things, it is not likely to do much economic harm—or much political good. If fiscal neutrality is defined as that level of borrowing which leaves the debt burden of public sector unchanged, there is room for some slight improvement. An overshoot of £1bn to £1.5bn would leave a neutral balance, after allowing for privatisation.

If weak oil prices are a sign of faltering world demand, and

### Monetary control

If determined rather than frantic discipline is needed, one area cries out for attention—debt service costs. Net government interest payments, about £1.5bn in 1984, are expected to reach £1.8bn next year. This calls in to question the present techniques of monetary control, which seem to have excluded the UK from the worldwide fall in interest rates. The Government has lost large sources of cash, often at give-away prices. What has been given away once on privatisation is not there to be given away a second time in the cuts. Smothering monetary control, easier, surely, within the EMS—together with more economical funding and more demanding prices for privatised assets would do more to address the problem than any amount of squabbling over candle-ends.

## Privatisation, Italian style

WHEN IRI, the Italian state holding company, agreed seven weeks ago to sell off its considerable operations, the considerable speed and completeness of the transaction seemed to be too good to be Italian. And this, unfortunately, is what it has turned out to be.

The sale of the food business, controlled by a company named SME, suggested that Professor Romano Prodi, the chairman of IRI, had at last succeeded in carrying out a large-scale privatisation of activities which IRI regarded as "non-strategic". It meant a decisive reversal of the process under which, for five decades, the Italian state has always acquired control of businesses, however anomalous their control by the state appeared.

In a broader sense it seemed to be further confirmation of the way Italy during the 1980s has been gradually getting on top of its problems such as terrorism, union militancy and, in this case, the scandalous losses chalked up by the state holding companies.

**Fiefdoms**

It was particularly impressive that the sale of SME to Buitoni (which recently came under the control of Sig Carlo de Benedetti, chairman of Olivetti) was preceded by none of the public politicking that accompanies almost every transaction in Italy which involves the state.

But the politicking came afterwards. The minister responsible for state holding companies, Sig Clelio Darida, whose signature was apparently needed for the deal to go through, refused to give it, despite having approved the purchase in principle. Then IRI began to receive counter-offers to that from Buitoni which obliged it to consider alternatives to the Benedetti deal.

When, at the end of last week, IRI told the minister that it wished to abide by its agreement with Buitoni, one might have expected him to say in principle. Instead, the minister changed by decree the terms on which the negotiations had been carried out till then. He asked IRI to reconsider the whole thing, with the minister retaining the final say. What happens next is anyone's guess.

The reason things did not go smoothly is that state-controlled companies in Italy are in many cases fiefdoms of political

A FEW weeks ago IRI, the U.S.-based multinational conglomerate, called a halt to work on 20 research and development projects at its advanced technology centre in Sheldon, Connecticut.

IT took the painful decision in order to concentrate resources and manpower on adapting its System 12 digital telephone exchanges to U.S. standards, an effort which will cost the group about \$300m. Like other world telecommunications equipment manufacturers, IRI is locked into a high risk-high reward race to capture a significant share of the booming U.S. market for advanced telecommunications equipment. The U.S. alone is over a third of the estimated \$150bn a year world market.

The break-up of the U.S. Bell telephone system at the start of last year, which severed the links between the local telephone companies and American Telephone and Telegraph's Bell Laboratories and Western Electric manufacturing unit (now part of AT & T Technologies), has unleashed a new competitive spirit among the now independent Bell Operating companies (BOCs).

This, in turn, is presenting an unrivalled opportunity for equipment manufacturers from Europe, Japan and North America which are scrambling to establish a foothold in the huge U.S. market.

Freed from the purchasing dictates of AT & T headquarters, the BOCs, grouped into seven regional holding companies, are aggressively seeking new equipment suppliers, both in order to reduce costs and, it seems, as a forthright expression of their newfound freedom.

"The BOCs have moved much more quickly than anyone expected to wean themselves off AT & T and seek out alternative equipment suppliers," says Professor Eli Noyan, an industry expert at Columbia University.

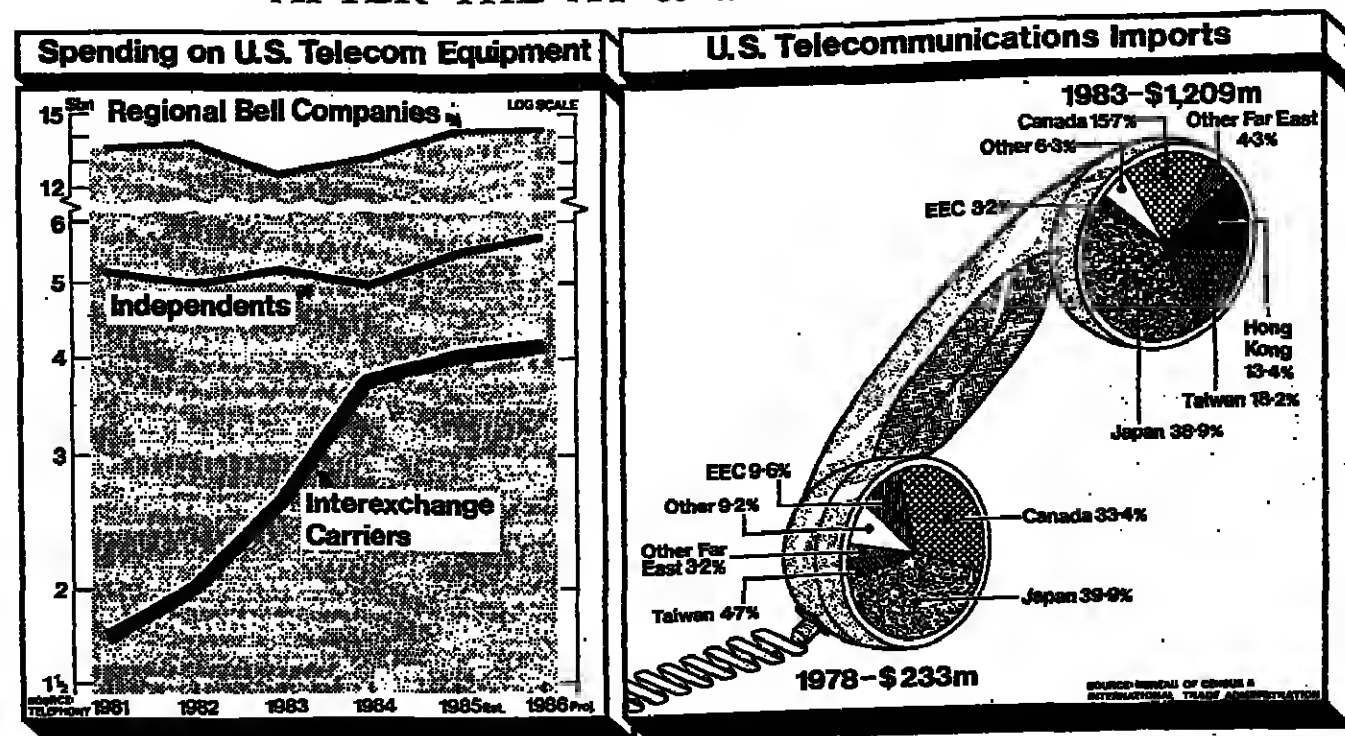
This view is confirmed by purchasing managers in the Bell companies themselves. Mr Peter Curley, assistant vice-president in charge of purchasing at Bell Atlantic, one of the seven regional holding companies, says: "After divestiture you had a divorce. Now we are solely responsible for our own future, our posture is entirely different."

Bell Atlantic, like the other Bell companies, has deliberately sought out alternative equipment suppliers to reduce its dependence on AT & T, says Mr Curley.

Last year, Bell Atlantic reckoned, competitive bidding saved the company \$100m, or five cents on every dollar of its telephone equipment. Bell Atlantic has also demonstrated its commitment to other vendors' equipment—particularly private branch exchanges (PBXs)—by offering their products to customers in preference to those marketed by AT & T.

For example, last year the BOCs, selling business equipment through separate subsidiaries, helped boost Canada's Northern Telecom group into top position among suppliers of office PBX systems. Northern Telecom grabbed 20 per cent of the \$1.3bn U.S. PBX market last year, according to industry estimates, setting the company ahead of Rolm (since merged with IBM), AT & T and Mitel, the other Canadian PBX manufacturer in which British Tele-

## AFTER THE AT & T DIVESTITURE



## The rush to sell in an exploding market

By Paul Taylor in New York

com recently took a controlling stake.

From telephone handsets to advanced transmission systems and optical fibre, divestiture and deregulation in the U.S. have ushered in a new period of intense competition. But it is in the \$32bn-a-year market for switching equipment in telephone company exchanges that the real battle lines are being drawn between the

### A limited 'window of opportunity'

world's telecommunications equipment giants.

Beginning in the late 1970s, several companies began offering big digital exchanges to replace older analog electro-mechanical devices. These advanced pieces of computer equipment controlled by complex software, cost millions of dollars each. They are capable not only of routing thousands of customer local and long distance calls from telephone companies' central offices, but also provide other features such as billing and other services.

The central exchange business in the U.S. has long been dominated by AT & T. But the telephone giant saw a large chunk of its market snatched from under its nose in the late 1970s and early 1980s by Northern Telecom, which was the first to sell a digital exchange in 1977 (to North Florida Telephone, an independent operating company).

Last year, according to some estimates, Northern Telecom

draw level with or even overtook AT & T to become the world's largest supplier of digital PBXs and central office equipment.

Northern Telecom's head start in the digital battle has helped it win substantial orders for its DMS 100/200 family of switches from all the local Bell companies. The Canadian group's total sales to the BOCs, including switches, cabling and transmission products, jumped from \$161m in 1982 to \$700m last year.

This frontal assault on AT & T's traditional territory is a high-risk strategy which, if it fails, could force the Canadian group to push deeper into debt or curtail its expansion plans.

The risks are made even higher by an apparent resurgence at AT & T, which has greatly improved its marketing and production. After a slow start, AT & T is recovering rapidly both in the cut-throat digital PBX market where the Rolm/IBM merger has already raised the stakes, and in the market for advanced central office exchanges.

Spearheading AT & T's new marketing drive is its SESS digital switch introduced in 1983. In November last year, AT & T shipped its two millionth SESS line, but by the end of this year, with production moving into high gear, AT & T expects to have shipped another 6m lines.

While both Northern Telecom and AT & T appear assured of a large slice of the post-divestiture switch market, new competitors are queuing up to try to grab a share as well.

The key question is how these new competitors will fare. For ITT (considered a European competitor in terms of the U.S.

telecommunications market), GTE of the U.S., Ericsson of Sweden, Siemens of West Germany, Plessey of the UK, CIT/Alcatel of France, Nippon Electric of Japan and the other challengers, the race is on.

Britain's Plessey group neatly illustrates the problem. It has pinned its hopes of acquiring a slice of the market for advanced telephone equipment—and particularly Bell operating company orders for Britain's System X Digital exchange—on its acquisition of Stromberg-Carlson, the Florida-based telecommunications group acquired by Plessey in 1982.

But while Stromberg-Carlson has had some success in the U.S. market for customer premises equipment and telecommunications transmission equipment, it is generally seen by industry experts as having fallen some way behind other competitors in the race to big orders for digital central office switches from the BOCs.

This battle to win a share of the U.S. digital market place is made more acute not only by the huge resources which must be committed just to qualify for a place on the starting line, but because many industry experts believe there exists a limited "window of opportunity."

This time-limit exists for several special reasons. First it is generally recognised that the BOCs held back on purchasing new equipment just ahead of divestiture. Much of their old equipment is now coming up for renewal, creating a "spike" buying cycle. Second, the introduction of changes in the U.S. telephone system, specifically the move towards providing

local subscribers with equal access to long-distance companies, is underway and due for completion by 1987.

Underpinning the move by the BOCs towards major digital exchange orders are the competitive pressures generated by divestiture. These are forcing the Bell companies to upgrade equipment, reduce costs and offer price-competitive services to big business customers, who

### Implications could spread beyond U.S.

are increasingly "by-passing" local telephone systems using microwave, satellite and other systems to connect their offices together and to long-distance telephone carriers.

Finally, while the U.S. central switch market is projected to grow rapidly over the next few years, many believe growth will flatten after that and, under these circumstances, a strong installed base will provide essential sales leverage, particularly as worldwide telephone standards evolve towards a common Integrated Services Digital Network (ISDN) standard.

The challenge for the new foreign and other competitors is to win a portion of this market before the "window of opportunity" slams shut—and a firmly entrenched installed base of new equipment is established.

These tough odds explain the ITT decision at the end of last month to concentrate its human and financial resources on adapting System 12, already

highly successful outside North America, to the U.S. standard, and GTE's admission that "the chief goal" of its telecommunications systems division is to capture a share of the BOC market with its rival GTE-Seaux switch. In order to win a share of the U.S. market ITT, GTE and the other competitors have to run a gauntlet of tough tests to have their switches accepted for possible purchase by the BOCs. This testing procedure has three distinct phases.

First, a paper evaluation by the regional holding companies themselves, designed to establish that the equipment meets specifications, and will not compromise the integrity of the existing telephone system. Second, a full technical evaluation by the BOCs, coupled with a comparison of costs "designed to narrow the field."

Third, a detailed technical analysis of the equipment by Bell Communications Research (Bellcore), a central testing agency owned by the regional holding companies, coupled with a field trial.

So far, most of AT&T and Northern Telecom's competitors have reached and passed stage one of the process and some, like GTE and Ericsson, have reached the third stage. ITT has attempted to shortcut the procedure by persuading several Bell and non-Bell telephone companies to buy System 12 on a trial basis while still racing to complete the other tests.

For ITT, the process is particularly galling. System 12 has already racked up considerable overseas orders but the U.S. remains the real prize.

L. M. Ericsson, the Swedish-based telecommunications group, faces a similar challenge. While Ericsson is a major player in the world telecommunications market, the company has little presence in the U.S. market. "We really have nothing here," admits John Meurling, Ericsson's vice-president of U.S. marketing, although the company has sold its switching gear to MCI Communications, the cut-price carrier, and for use in several mobile cellular telephone systems.

Like others, Mr Meurling agrees the Bell breakup has created "a whole new market." He believes there is room for at least one other central switch supplier and Ericsson has set its sights on being that supplier. "Our target is to have 5 per cent of PBX and 5 per cent of the switch market by the end of the decade."

Even if the host of competitors manage to meet the demands of the competitive place against each other, the resulting fierce pricing war is expected to drive prices and margins way down.

But whoever wins the post-divestiture U.S. telecommunications marketing battle, its long-term impact could stretch far beyond U.S. shores. Prof Norman of Columbia University believes the opening up of the U.S. telecommunications market place to foreign competition is "a double-edged sword" which will "inevitably" lead to additional pressure by U.S. equipment makers on European telecommunications groups to throw open their markets. Already U.S. equipment manufacturers are pressing for a deregulation of that market—seeking to redress the yawning \$1.2bn telecommunications equipment trade gap between Japan and the U.S. last year.

### Teething troubles

Even the Japanese agree that the West Germans lead the world in motor industry technology. So the Germans are a bit embarrassed about their failure, so far, to deal with the polecat problem.

It seems that the insulating compound applied to electric wiring in cars has a smell which polecats (small, four-legged beasts of the weasel family) find irresistible. The animals frequently pop into car engine compartments for a quiet nibble with obvious results.

Dr Hans Eagen, BMW's director of science and research, is one who suffered personally from the problem. He says all the German car makers are now co-operating to combat the menace.

The manufacturers have rejected any idea of just shooting the varmints — the environmentalists would not approve and, in any case, polecats mainly do their chewing well after midnight.

Instead, the industry has tried spraying the wiring, which did not work, and ultra-sonic sound systems, which upset dogs.

Hagen suggests that the industry may have to resort to a low-tech solution and fit some kind of wire mesh under the engine compartments to prevent the polecats getting in.

Meanwhile, he just thanks his lucky stars that the creatures had not developed a taste for the compound on car braking systems.

### Spin off

George Dorman misses the buzz of the early 1970s when he was sent from Italy as managing director of a one-man company to establish a market in Britain for Zanussi appliances.

He was not exactly given a flying start. Still in his 20s, with no work experience in the UK, he was also nobbled by a rider from head office which demanded that his exploits should not cost the company any money.

## Men and Matters



"Never mind where you want to go—where do you want to be checked out?"

Happily, his arrival coincided with that of a boom in sales of appliances which caught the UK manufacturers with their pants down. Unable to meet demand, they turned to Dorman. Within five years he was selling 500,000 appliances a year.

Even so, Zanussi was hardly a household name. All its appliances were sold under other companies' brands.

His next challenge was to establish Zanussi as a brand in its own right—not an easy task in a market where Italian appliances had earned a down-market, cheap image. The answer? The Appliance of Science. The washer from outer space.

It worked—but Dorman had enough. He has resigned complaining of a low boredom barrier which began to crumble

about three years ago.

With his eye on the sweeping successes of the Benetton operation, he plans to capitalise on his links with Italy by opening shops selling Italian goods. "No frayed shirts, no faded jeans, no covering everything from food to tailored gloves."

His ideal area, he says, is Italy. He has bought other Home Countries dormitories of the well-heeled. Once off the ground, he aims to franchise the business.

There is an uncharacteristic whiff of bitterness in his reasoning, reflecting his own trials at the hands of the mighty chain retailers who dominate the UK appliance market.

"There are thousands of good manufacturers in Italy. I'd like to give them a chance in a large market like the UK without their being screwed by the multiples," he says.

### Microfracas

The widely publicised Christ-mas punch-up between Sir Clive Sinclair and his home computer rival, Chris Curry, founder of Acorn, did not end with the apologies made the next day.

Sinclair Research complained to the Code of Advertising Practice Committee about the Acorn ad that caused the fracas—a reproduction of Press reports of a survey which referred to the unreliability of Sinclair micros.

And Acorn complained to the Committee about the accuracy of market share figures quoted in an ad for Sinclair computers. The Committee has responded by criticising both Acorn's ad, it says, "failed to respect the principles of fair competition," and Sinclair's "could be misleading."

### Knight watch

The last few days have been good ones for Bernard Audley, one of the founders of AGB research, the British market research group as a £100 company in 1962. First there was a knighthood in the Queen's Birthday Honours. Then AGB clinched its largest export contract—a £13m five-year programme to provide overnight television ratings in Italy.

For the first time Italian ratings will cover not only the public sector programmes of RAI, but the private, independent companies, once regarded as "price companies" but now finally respectable.

AGB has acted as a catalyst in bringing the two sides together," Sir Bernard, AGB's chairman, says. He intends the result of his company's work to be the most detailed picture so far on who watches what in Italy.

AGB beat Nielsen's, the world's largest market research organisation, to the contract, and now Sir Bernard intends to tackle Nielsen in its home market, the U.S.

### Law suits

Byron Limited has been in business as tailors in Hong Kong for the past 25 years, so it obviously knows its market.

Included in the wardrobe it recommends for the businessman is a dark grey, all wool, suit "to wear at board of directors' meetings and courtroom trials."

### Tail order

Heard in a cafe in West London: "Would you put three cups of tea in this vacuum flask, two without sugar?"

Observer

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Ian Ferguson, Schlossparkstrasse 3, 4000 Düsseldorf 13. Tel: (211) 719011. Tlx 17211 4082



## SRI LANKA IN CRISIS

## The vital role of Rajiv

By John Elliott in Colombo



"THIS HAS become a war—people have been killing each other," says Mr. J. Jayawardene, 78-year-old President of Sri Lanka, the island off the southern tip of India which last night was poised on the brink of a ceasefire after two years of ethnic violence.

Mr. Jayawardene was speaking at the weekend in the capital, Colombo. He is believed to have agreed at a summit in New Delhi two weeks ago with Mr. Rajiv Gandhi, India's Prime Minister, that a ceasefire should build up gradually over six weeks from yesterday and then last for two or three months, during which time talks could take place.

It is now almost two years since century-long rivalries erupted into anti-Tamil riots by Sinhalese mobs which engulfed Colombo. Since then Tamil extremists, organised in five main guerrilla groups based in the north, have been stepping up their violent campaign. Some are Marxist-based and want a revolution for the whole island. But the immediate aim is Eelam, total independence for the Tamil areas of the north and east, even though the majority of the island's 2m Tamils would probably settle for regional devolution.

With villages burned and demolished, over 10,000 villagers in temporary refugee camps on the island, and hundreds dead, Mr. Jayawardene admits the situation has "got worse in the past two years". The communal unrest has increased and engulfed a small Moslem community, and extremist groups have become more sophisticated and have come to regard themselves as parallels to the Palestine Liberation Organisation and Swagat in South Africa.

The country's economy is suffering and there are meat and fish shortages. There are up to 100,000 Tamil refugees in southern India and several thousand more in European countries including the UK, where some face repatriation. Hardly any tourists are visiting the island and foreign investment is drying up. Jayawardene's dream of turning Sri Lanka into a southeast Asian-style free market economy has been almost halted as the island has been drawn back into the ethnic problems common in south Asia where India predominates.

Scandinavia and other countries among international aid

donors who meet in Paris tomorrow to vote between \$500m and \$550m of annual aid have also been complaining about the government's ethnic policies.

There is also a mood for the troubles to end among many of the island's 15m population. An extremists' attack on the ancient Buddhist Sinhalese city of Anuradhapura last month undermined the confidence of both the government and the Sinhalese people. Nearly 140 people were killed in the incident.

For most of the two years, the Sri Lankan Government has contained the extremist activity to the northern Tamil homeland of Jaffna where Tamils make up 75 to 90 per cent of the population compared with 12 to 17 per cent nationally.

But the extremists took the battle in April to Batticaloa in the east where Tamils account for 72 per cent of the population, Moslems 24 per cent and Sinhalese 3 per cent. The aim was to drive the Sinhalese out and establish a Moslem state, but eventually there was violence between the Moslems and Tamils, incited according to independent observers by a government special task force trained by ex-British SAS officers.

Then the extremists moved to the area around the strategically important deep-water port of Trincomalee on the Indian Ocean. This area is a buffer zone between the strong Tamil areas of Jaffna and Batticaloa and with its deep-water port is essential economically to any Eelam state. Equally it is crucial for any Colombo Government to control.

Its population is roughly split into three equal parts of Tamils, Sinhalese and Moslems. "Go to Trincomalee because there you can see something of a border war. In many Sinhalese minds, Jaffna may have to be given up to the Tamils one day. But the last, as Trincomalee is the border," I was told in Colombo.

In some of the worst violence so far, a bus was stopped south of Trincomalee by troops who shot six Tamil passengers. So Tamil extremists shot four Sinhalese and dumped their bodies where soldiers had allegedly burned the bus passengers. The army is reported then to have burned two Tamil villages near Mutu, south of Trincomalee, in retaliation, for the incident last month. The Tamils then allegedly burned two Sinhalese villages and the

army burned 11 Tamil villages. In Nilaveli, north of Trincomalee late last month an air force officer was killed in an air force ambush. Troops the next day allegedly killed a Tamil soldier and seven Tamil civilians. A few days later a police station nearby at Kuchaveli was blown up by extremists. As many as 300 soldiers are then said to have descended on the village, burning Tamil houses.

The village borders a beautiful palm tree-lined golden beach. Last week all that remained of the Tamil area was masses of flattened and burned buildings. Nervous navy troops aimed machine guns from behind sandbagged defences and rough road blocks. A little to the south, a bridge had been blown up and a modern popular 50-bedroom beach hotel, the Moonlight, was in total ruin, having been bombed and burned by extremists because the owner was suspected of helping the troops.

Although the Moonlight was the first hotel to be attacked by terrorists (apart from a minor explosion in the Colombo Ocean last year), the tourist industry has been hard hit. The total number of nights spent by tourists on the island declined by 21 per cent last year over 1983 and receipts in SDRs declined by 13.5 per cent in 1983 and by 8.7 per cent last year.

This year the decline could be even worse after the Anuradhapura and other attacks and no part of the island can now be regarded as safe.

Rising tea prices internationally and a sharp increase in the volume of tea exports bolstered

stands the Sri Lankan problem and does not want the Sri Lankan unrest to stir up India's southern state of Tamil Nadu where there have recently been anti-Jayawardene demonstrations. Tamil Nadu has historic links with the Sri Lankan Tamils which pull India and Sri Lanka inextricably together.

The first objective in Sri Lanka has been to step up pressure to persuade the extremists to join a ceasefire, for whatever motive. "We believe that the Sri Lankan Government will never put up proposals sufficient for our people so we want Rajiv and the world to see that lack of willingness. For that reason a ceasefire would expose Mr. Jayawardene," says Mr. A. Balasingham, chief theoretician of the Tamil Tigers which was yesterday reported to have joined the ceasefire.

Mr. Jayawardene's brother, Harry, a lawyer, has been in Delhi this week consulting constitutional lawyers on whether India's devolved system of semi-federal government could be adapted to give more autonomy to Sri Lanka's northern and eastern provinces than Mr. Jayawardene proposed before the last round of talks collapsed in Sri Lanka last December.

Earlier sticking points like the power of local police and the percentage of land given to different races could probably be solved, but the main problem is that most Tamils want the northern and eastern provinces combined into one area which Mr. Jayawardene rejects saying: "They must remain separate, that is fundamental and non-negotiable."

In the past, possible peace proposals have been rejected by leading Buddhist priests and by hardliners in Mr. Jayawardene's United National Party which is sharply split on political and personal rivalries. These hurdles remain and can only be crossed if Mr. Jayawardene confronts his critics and shows he is really aiming at a settlement and not just buying time to regroup political and military strength and confidence.

Mr. Jayawardene, who felt humiliated by Mrs. Gandhi, has suddenly become full of praise for Mr. Gandhi. He is, however, tending to overstate, in India's view, the role that India can play. So the praise carries the risk that he may try to shift the responsibility for any failure on to India.

## Company political donations

## What the shareholders should know...

By Edmund Dell

THE PRESENT increasing sensitivity about company political donations has been illustrated by the recent decision of the Willis Faber Board to give its shareholders advance notice of its intentions. What they are doing is welcome, but is it enough?

If company boards attend to the advice given in *Company Donations to Political Parties: a suggested code of practice*, which was published yesterday, they will take at least one step further. They will explain why they think it is in their company's interests to make the proposed donations, and they will poll their shareholders for their approval of the statement embodying their explanation.

Many companies that make political donations do so reluctantly. When I was an economic minister in Labour Government, chairmen of companies who wanted some form of government support would occasionally take an opportunity of informing me that they supposed I knew that they gave money to the Conservative Party. "You will understand," they would tell me apologetically, "that we do this because trade unions give money to the Labour Party."

They were embarrassed. I was annoyed that they should fear that such considerations might affect me or the government of which I was a member, and we passed on to the merits of whatever they were proposing.

They thought that it was the most natural thing in the world that politics in this country should be financed by "the two sides of industry." But it certainly made me feel that our method of funding politics served to "accrue" instead of reflecting the actual degree of conflict in society.

That is a quotation from an earlier report entitled "Paying for Politics." In 1980 I was asked by the Hansard Society to chair a commission on the funding of politics in this country. The commission represented a wide spectrum of political opinion. Nevertheless, all of us felt that what were then two main political parties were far too dependent on institutional financial support, trade unions in the case of the Labour Party

and companies in the case of the Conservative Party.

It would be less damaging if the distribution of political giving was influenced by some assessment of the views of shareholders and employees. If companies did that, and trade unions could be persuaded to do the same, it would at least reduce the confrontational element in the way political parties are funded in this country. But there is little sign of that happening.

Our recommendations at that time had it as their intention that they should lead to a re-

duction in the parties' dependence on institutional sources of finance. The method we chose was designed to encourage modest contributions from individuals. For that purpose we recommended that such contributions up to a very low ceiling should be matched by small grants from the state. There would thus, we hoped, be a greater incentive for political parties to seek widespread membership. The majority of us felt that, so far as trade unions were concerned, the law should substitute contracting in for contracting out.

Then came the Trade Union Act, 1984. It went less far than the Hansard Society Commission had recommended. Nevertheless, it introduced a statutory requirement on trade unions to hold regular ballots on political funds. The sensitivity about company political donations derives in part from that legislation.

It seemed time for an inquiry into whether, partly to balance the new trade union legislation, but also because it was right in itself, there should be a voluntary code of practice governing company political donations. My colleagues on the Hansard Society Commission felt that the distribution of political donations was in no way committed to the earlier Hansard Society Commission

report. However, they accepted its basic thrust.

Our report insists that political donations should be kept in proportion. An action which is acceptable in itself can become unacceptable if it is out of proportion, and we embodied in our suggested voluntary code our key proposal that boards should make a statement arguing their case for political giving, and present it to their shareholders for approval.

What kind of statement could a board make to justify political giving? Years ago, one great industrial magnate told me that if I could persuade the Labour Party to abandon nationalism, it could expect largesse from his company equal to the very large sum then going from it to the Conservative Party. He was not, of course, taking any great risks. For my part, I wondered whether, if I succeeded in so momentous a task, the result might not rather be that he would stop giving money to the Conservative Party. What further reason would he have?

It is understandable that companies should wish to contribute to political parties that oppose nationalisation. More positive reasons might arise from a fear of the return of exchange control, attitudes to membership of the European Community, or approval of recent trade union legislation.

My sympathies are with those leading industrialists who told the working party that they are persuaded by the many powerful arguments against company political donations. But if company boards think that they can justify it, let the reasons be on the record to be examined by shareholders, and let boards consider carefully what the implications of their reasons are for the distribution of political donations.

*Company Political Donations: a suggested code of practice*, is available from the Constitutional Reform Centre, 60 Chandos Place, London WC2, price £2.50.

*Paying for Politics, the Report of the Hansard Society Commission*, is available from the Hansard Society, 16, Gower Street, London, WC1; price £2.50.

The author is chairman of Channel Four TV, chairman of the Hansard Society Commission, and former Secretary of State for Trade.

## The threshold trap

From Mr P. Ashton  
Sir,—In his eagerness to define a new tax/benefit distortion Professor Collard (June 12) on "The threshold trap" fails to provide an adequate reason for us to be concerned about its effects.

It is obvious that increases in tax thresholds will benefit those on the proposed means-tested benefit less than other taxpayers (since the new benefits will be linked to net rather than gross earnings) but why refer to this as yet another "trap"? The poverty and unemployment traps are so named because they are believed to discourage people from earning more or from seeking employment: they are thus trapped into poverty (or more correctly low net earnings) or unemployment. What, though, does the differential benefit from a reduction in income tax prevent people from doing? They are not in any sense of the word "trapped" into anything.

The main effect on benefit recipients from an increase in tax thresholds will be to reduce their number as they are gradually floated off benefits. Hence the size of the poverty trap problem is diminished as thresholds are increased. Surely a good thing?

Paul Ashton  
University of Liverpool,  
Eleanor Rathbone Building,  
PO Box 147, Myrtle Street,  
Liverpool

## British Airways and Lorrho

From the Chief Executive,  
British Airways  
Sir,—The report (June 18) that "British Airways had indicated a recognition of Sir Freddie's (Laker's) and Lorrho's position by an inadequate suggested figure for settlement of their claims" is incorrect.

At no time has British Airways offered or indicated that it intended to make any offer to Lorrho in respect of its alleged claim concerning the joint ventures Skytrain Roll-dies and Peoples Airline. Colin M. Marshall,  
P.O. Box 10,  
Heathrow Airport (London),  
Hounslow, Middlesex

## Working women

From Mrs K. Clifton  
Sir,—Mr Hart (June 12) has again raised the old chestnut of married women part-timers taking jobs from the young unemployed. An employer will at all times seek conscientious, hard working, literate and numerate staff and if market forces supply these workers in the form of married women who are often able to deal on

## Letters to the Editor

a part-time basis with a full-time workload, who can blame the employer for employing them? How many literate school-leavers are there?

Other industrialised countries do not usually have Britain's high levels of part-time employment because other countries provide a far superior child care service. If a moderately paid mother has to pay for childcare after paying tax and national insurance, her "take home" pay may be only a few pounds a week more for a full working week than a part-timer working less than she does not have such deductions.

Mrs K. Clifton,  
Deepdene, Oakham Road North,  
West Horsley, Leatherhead,  
Surrey

## Electricity from France

From the Secretary,  
Electricity Supply  
Trade Union Council  
Sir,—Your report (June 14) about the attitudes of the electricity supply trade unions to the supply of electricity from France over the new 2000 MW underwater cable is untrue.

The unions in the industry have been kept informed by the Central Electricity Generating Board about the plans for the use of this cable, and we have made no objection to what the board has so far told us about the way the link will be used.

J. Lyons,  
Station House,  
Fox Lane North,  
Chertsey, Surrey

## The importance of dividends

From Mr J. Gurney  
Sir,—Many investors share Mr David Davies' puzzlement, expressed in the Management Page ("Upending some sacred cows," June 3), that the academic establishment should continue to regard dividend policy as having no effect on share prices, in the face of all the evidence to the contrary. His statement, however, that "Economic theory says that dividends are at best irrelevant" is too sweeping.

There is one theory due to Miller and Modigliani, that maintains this, but I would like to draw Mr Davies' attention to a competing theory which I have put forward in a number of articles.

According to the alternative theory, which has the merit of being consistent with observed market behaviour, dividend policy affects share prices by affecting the sensitivity to

changes in market conditions. Increasing the dividend payout ratio for a given investment reduces the market-related volatility, so that the systematic risk, and therefore, the appropriate discount rate, are less, and the share price valuation is greater.

J. P. Gurney,  
Allied Unit Trusts,  
9-15, Sotheby Street, W1

## Expensive warships

From Mr D. Wright  
Sir,—It is surprising that the Ministry of Defence sometimes receives poor value for money in warship building contracts, according to the Comptroller and Auditor-General.

There is a learning curve in examples of any major item of the construction of the first equipment. It follows that later examples should cost less and take less time to complete than the originals, providing, of course, that production has been concentrated on a single source so that the learning curve occurs just once, and does not have to be repeated by two or more manufacturers or, in this case, shipyards.

Instead of placing orders for new warship classes with just one yard, the Ministry of Defence prefers to scatter these around in penny numbers. The invincible-class of aircraft carriers consisted of just three ships, yet building was allocated to two yards, meaning that two out of the three vessels were at the start of the learning curve. Although there are supposed to be eight Type 23 frigates in due course, the Ministry of Defence has not ordered all eight from a single yard, but instead has ordered just one and hopes to order up to three more over the next two months. Small wonder that this supposedly low-cost class of frigate is now estimated to cost almost as much as the more capable Type 23!

The ordering of an entire class from one yard would enable the maximum benefit to be obtained from the learning curve, while also ensuring that the yard could plan ahead and the phase construction at the most economic pace. There would be another benefit as well: the Dutch placed orders for the first eight of their Kortenaer-class frigates with just one yard, which also meant that it was easier for them to offer early delivery when the Atlantic Navy was looking for a warship of this type, something which British yards cannot offer.

Of course, it can be argued that spreading the available work helps employment and the regions, but if it affects our ability to maintain the right level of naval forces, these other considerations must ultimately be self-defeating.

David W. Wright,  
45, St Margarets,  
London Road,  
Guildford, Surrey

## Political fund ballot

From the General Secretary,  
Association of Scientific,  
Technical and Managerial Staffs  
Sir,—The story in Men and Matters (June 17) that when ASMTS conducts its political fund ballot, members will have to sign their voting slips and fraud detection will be limited to a simple handwriting check" is quite false.

It would be illegal to have such a requirement. In workplace ballot members will sign their electoral roll and then receive their ballot in an envelope as required by law for casting in a ballot box.

Clive Jenkins,  
79, Camden Road, NW1

## Violence on the terraces

From the Chairman,  
Stamford Group  
Sir,—As a regular visitor to the U.S. and a keen spectator of baseball and ice hockey, I feel obliged to comment on Mr Stoman's letter (June 13).

His conclusion that the revival of discipline "that old fashioned virtue" is required may well be true and would certainly have my support. His assumption however that there is a greater abundance of self-discipline generally in the U.S. seems very doubtful to me.

The reasons for less hooliganism (at least off the streets) at sporting events in the U.S. is due to a combination of better often ultra modern facilities, a conscious responsibility to entertain prior to the main function and, of course, geography.

Distance prevents much travelling by supporters of the visiting teams. Consequently, virtually everybody watching a major baseball game supports the home side. Good humour abounds, as does excellent marshalling to crowd down immediately on drunks or trouble makers.

After watching English soccer for 35 years, I remain baffled by the failure of the FA and Football League to learn from the U.S. in the development of their industry. Only a handful of clubs, of which Manchester United is the clear leader (I declare a life-long interest), have even started to approach the high standards which are accepted as normal in the U.S.

J. M. Nugent,  
Bagley Street,  
Stalybridge, Cheshire

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## SECTION II - COMPANIES AND MARKETS

## FINANCIAL TIMES

Wednesday June 19 1985

**DOUGLAS**  
CONSTRUCTION  
Building  
the way ahead  
01-222 4077

## Tenneco to pay \$500m for Goodyear gas lines

BY TERRY DODSWORTH IN NEW YORK

TENNECO, the diversified U.S. energy and industrial conglomerate, is strengthening its position in the natural gas pipeline industry with the \$500m acquisition of Goodyear's pipeline and other gas activities in Louisiana.

The deal gives Tenneco a strong position in Louisiana, the third most important gas-consuming state in the U.S. after Texas and California. It also consolidates the Houston-based company's situation as the second largest gas pipeline operator in the country after Intercontinental Natural Gas, which was formed through a recent merger.

Among the main assets to be purchased by Tenneco are the 1,800-mile gas pipeline system operated by Louisiana Interstate Gas within the state of Louisiana, a 970-mile

transmission system operated by Mid Louisiana Gas Company, three gas processing plants and interests in two additional plants.

Goodyear, the U.S. largest tyre manufacturer, stressed that its Celeron All-American Pipeline Company, which is constructing a crude oil pipeline from California to Texas, was not included in the sale. It is also retaining its onshore oil and gas properties, except for its gas field at Monroe, Louisiana, along with its exploration and production business, and its extensive offshore California interests.

The type group refused to reveal the profits or sales of the gas activities it is selling and would not say how much of the \$500m purchase price was in cash as opposed to the assumption of debt. But it said it had been faced with the need to ex-

pand to stay competitive and that the pipeline business made a better fit with Tenneco's operations.

Tenneco, which first established itself as Tennessee Gas Transmission in 1943, is one of the oldest gas pipeline operators in the U.S. Its network originates in Texas and southern Louisiana and extends up the Mississippi valley into the industrial states around the Great Lakes and the large contributions of the eastern seaboard.

The company said yesterday that the deal with Goodyear fitted with plans for the expansion of its integrated production and distribution facilities. The Louisiana pipeline will give it the opportunity to move gas into the U.S. from its offshore production facilities in the Gulf of Mexico, where it is still exploring for more wells.

## Cummins Engine to sack 2,200

By Our Financial Staff

CUMMINS ENGINE, the leading U.S. manufacturer of diesel engines for heavy duty trucks, is to cut 2,200 jobs over the next few weeks because of a rapid reduction of demand for engines from North American vehicle makers.

The company also blamed falling demand for service parts for the cuts, which will affect all levels of staff. The announcement is the first major indication of the downturn in the U.S. truck industry. Cummins said its major customers had said they were reducing build rates sharply.

The company said the costs of the cuts would be included in results for the second quarter, when it expects operating profits to be below first-quarter levels. A substantial further erosion of operating profits is expected in the third quarter.

In the first quarter of 1985, Cummins reported net profits of \$29.3m or \$3.08 a share, against \$38.4m or \$4.03 a year earlier, on virtually unchanged sales of \$373.2m.

## IBM steps up pressure

By Our Financial Staff

IBM, the world's largest computer maker, yesterday increased the pressure on its rivals with a raft of price cuts and new product announcements.

The company introduced the System/36 PC, which combines a new "entry-level" System/36 mainframe and a directly-attached personal computer. It also announced three new personal computer AT versions of 2870, 2870C and 2870D, a host graphics display, two low-cost terminals and three devices for transmitting computer data over telephone lines.

Meanwhile, it reduced the price of its 4381 mainframe by 6 to 8 per cent and its intermediate 4381 model by up to 8 per cent. Prices for several small system displays and printers were cut by 7 to 20 per cent.

IBM said the price cuts were the result of normal business reviews.

## Heinz expects 9% upturn

H.J. HEINZ, the U.S. food processing group, expects to report a 9 per cent profit gain in the fourth quarter and a 12 per cent rise for all the fiscal year ended May 1, said Mr. Anthony O'Reilly, president and chief executive officer, Dow Jones reports from Pittsburgh.

For the fourth quarter, Heinz would report earnings of about \$60m, or \$1.10 a share, compared with \$56.2m, or \$1.01 a share, a year ago, Mr. O'Reilly said. The latest quarter includes an expected \$5m to \$10m extraordinary gain from a debt swap.

For the year, Heinz will report earnings of about \$255m, or \$4.54, compared with \$240m, or \$4.24, a year ago, Mr. O'Reilly said.

Foreign currency translations and the effect of the strong dollar reduced sales by more than \$80m in the fourth quarter and \$200m for the year.

## U.S. AIRLINE TURNS INTO TRAVEL GIANT WITH PURCHASE OF HERTZ

## UAL's drive into the future

BY PAUL TAYLOR IN NEW YORK

UNITED Airlines (UAL), the biggest U.S. airline, lures customers with cut price tickets and an invitation to "fly the friendly skies." Now UAL is going one better by acquiring Hertz, the world's number one car rental agency, for \$587.5m in a move that will turn the airline into an even more formidable travel Goliath.

The Hertz transaction will mean UAL, which already owns the rapidly expanding 54-hotel Westin chain, will be the only major U.S. air carrier to be able to package together a whole travel trip including car hire, air travel and hotels. In the fiercely competitive post-deregulation U.S. air travel market this ability could prove a knock-out punch for some of UAL's weaker competitors.

Mr. Richard Ferris, UAL's chairman and chief executive, called the deal a "natural fit" that would be "an extension of our leadership in the airline and hotel industries." He noted that 80 per cent of all U.S. car rentals come in conjunction with air travel and that the combination with Hertz, which has around 35 per cent of the U.S. car hire market, would enable the group to provide a full service, "from reservations to check-in to baggage handling."



The deal, apparently under negotiation for nine months, was announced jointly by UAL and Hertz parent RCA, the U.S. television, entertainment and high-technology group. It further signals UAL's bold confidence in its own future coming just days after the airline settled a costly 20-day pilots' strike and a month after United agreed to acquire Pan American World Airways' Pacific division for \$715.5m.

Hertz, which operates a fleet of nearly 400,000 cars and trucks in more than 120 countries worldwide, has been a successful competitor in the cut-throat U.S. car hire market and earned \$30m on revenues of \$1.44bn last year.

Nevertheless, the car hire group has been on-and-off the auction block for the past three years as RCA has readjusted its own business strategy selling its CIT finan-

cial services group to Manufacturers Hanover for \$1.5bn last year and refocusing on the communications, entertainment and electronics markets.

For New York-based RCA the deal will therefore complete a further phase in this strategy. Wall Street views the proposed deal as very positive for both UAL, which will run Hertz as a separate subsidiary under the leadership of Mr. Frank Olson, the car hire company's 53-year old chairman, and RCA.

Before the deal is completed it will come under federal anti-trust scrutiny. But in the current liberal Washington anti-trust environment, Wall Street does not expect this to prove a major hurdle.

UAL, which reported a \$260.9m profit last year, before extraordinary items, on revenues of \$6.97bn, is expected to use part of its \$1.1bn cash hoard and \$750m credit line to fund the deal. Recently United moved to bolster its resources through plans to sell ownership rights in certain Westin hotels - a move that may raise as much as \$2bn - and to free-up almost \$1bn in excess assets from its over-funded employee pension fund.

## Norsk Hydro to buy majority stake in Cofaz

By Fey Gjester in Oslo

NORSK HYDRO, the Norwegian industrial and energy group, plans to acquire a majority stake in Cofaz, the French fertiliser company, through purchases from two French concerns which together hold 80 per cent of Cofaz's shares - the oil company Total Marine and Banque Paribas.

It has signed a letter of intent to this effect with Total and Paribas but says the exact number of shares it will buy from each is still subject to negotiation, as is the purchase price. Its final stake will be somewhere between 50 and 80 per cent.

Cofaz is France's second largest fertiliser producer, and the deal would significantly strengthen Hydro's position in the French market. It is, however, subject to approval by the governments of both countries. Hydro has informed the French authorities of its plans but has so far received no reaction.

It has been suggested in Oslo that France might make its approval conditional on an undertaking by Hydro not to close any of Cofaz's plants.

● **Store Norske** Spitzbergen Kullkøpsvesen, Norway's state-owned coal mining company on the Arctic island of Spitzbergen, made an operating loss of Nkr 70.1m (\$8.8m), in 1984. But state subsidies totalling Nkr 215m enabled it to show a profit of Nkr 88.4m after year-end allocations.

A year earlier, with considerably smaller subsidies, it showed an overall deficit of Nkr 82.6m and operating losses of Nkr 78.4m. Turnover in 1984 was 14 per cent up, at Nkr 277m, of which coal sales accounted for Nkr 234m.

● **Dynas Industri**, the Norwegian plastics, chemicals and explosives group in which Norsk Hydro recently acquired a controlling stake, reports turnover growth running ahead of profits in the first four months of 1985.

Gross operating income reached Nkr 1.04bn - 15 per cent up on the same period a year earlier - while pre-tax profits rose by only 6.5 per cent to Nkr 62m. Dynas expects a full-year profit slightly better than in 1984, when it made a surplus of Nkr 180m before extraordinary items.

## CDIC loss doubles as failures mount

BY BERNARD SIMON IN TORONTO

CANADIAN depositors should lose at least 10 per cent of their assets entrusted to a failed financial institution, a committee examining the financial problems of Canada Deposit Insurance Corp (CDIC) has recommended.

The committee's report was released as CDIC, a government agency, revealed that its deficit had almost doubled in the past year to \$1.2bn (\$1bn), which is within \$200m of the limit on CDIC borrowings from the federal Government.

The committee, headed by Mr. Robert Wyman, chairman of the Vancouver securities firm Pemberton-Houston-Willoughby, was set up earlier this year in response to mounting controversy on the role played by CDIC in recent failures and near-failures of financial institutions.

Although the agency is legally bound to cover only deposits up to \$50,000, the Government has in several cases instructed it to pay out all depositors no matter what

the size of their accounts. This decision pushed CDIC into the first loss of its 18-year existence in 1983.

In addition, banks have complained strongly that while they are by far the largest contributors to CDIC resources, the bulk of the agency's funds have been used to help depositors in trust companies. Several failures have become the subject of police investigations.

The Wyman committee argued that transferring some risk to depositors will make them more selective in their choice of financial institutions. When depositors have no risk, "they will obviously favour those institutions that pay higher rates," the committee said.

It has also proposed that CDIC premiums, levied on member institutions, should be raised from one-tenth of 1 per cent of deposits to one-tenth of 1 per cent. CDIC should have wider powers, including the ability to take over an institution "carrying on unsound business practices."

## U.S. bodies agree on approach to securities

BY OUR FINANCIAL STAFF

THE U.S. Securities and Exchange Commission, Federal Reserve Board and Treasury Department have agreed a joint approach to regulation of the government securities market in the wake of the collapse earlier this year of ESM Government Securities, which led to widespread upheaval in U.S. financial markets.

Under proposals drafted jointly by the three bodies, the Treasury in consultation with the Fed would be empowered to adopt rules bringing a measure of regulation to the market, which consists to a large extent of small undercapitalised securities dealers.

The agencies agreed that if Congress determined legislation to regulate the market was necessary, all currently unregistered dealers should be registered with a Federal

agency, according to details of the agreement announced at an open hearing of the SEC yesterday.

While the agencies differ on some aspects of further regulation, their proposals would give the Treasury authority to set capital requirements and require regular examinations of dealers. The Treasury would also be authorised to set record keeping and collateralisation requirements for dealers.

The SEC would have the authority to bar those dealers who violate the rules.

Mr. John Shad, SEC chairman, will present the proposals tomorrow to the House of Representatives energy and commerce subcommittee, which is considering legislation on the sector following the collapse of ESM, which led to the closing of some 70 Ohio thrift institutions in March.

Elsewhere, Florida Federal Savings and Loan launched a \$100m, zero coupon collateralised against U.S. government and mortgage securities. The deal, led by Kidder Peabody, Daiwa, Merrill Lynch and Nomura, is priced at 36.15 per cent, giving a redemption yield of 11.10 per cent excluding the 2 per cent fees.

Viacom, the U.S. communications and entertainment concern, launched a \$50m, 15-year convertible issue through Credit Suisse First Boston alongside Donaldson Luffin & Jenrette. Indicated coupon is 7 to 7 3/4 per cent and conversion premium 15 to 18 per cent.

In other currency sectors the World Bank is raising \$500m through a three-tranche private placement split equally into a five, six and seven-year maturity. Coupons are 5 1/2 per cent, 5 1/4 per cent and 5 1/8 per cent respectively and each tranche will be managed separately by one of the big three Swiss banks.

Yesterday also saw the launch of the first Swiss franc private placements to be led by Japanese banks, a controversial move in Switzerland whose own banks cannot lead issues in Tokyo. The deals included a \$500m private placement for MK Seiko led by LITCB (Swiss) and a \$500m deal for Suzuki & Co led by IBF (Switzerland).

First meanwhile launched an Ecu 55.5m, 4 1/2-year issue with a coupon of 8 1/4 per cent and issue price paid by Mitsubishi Finance International. Proceeds are to be swapped into floating rate dollars "substantially below Libid."

The Ontario municipality of Hamilton-Wentworth reopened the Canadian dollar market with a \$25m, 10 1/2 per cent issue led at 89 1/2 per cent by Wood Gundy. This is its first Euromarket issue, and the first Canadian dollar issue for more than two weeks.

## Peugeot

A REPORT in yesterday's FT on Peugeot's \$300m loan facility wrongly described the company as being state owned. We regret any misunderstanding that may have arisen from this error.

# SWEDISH MATCH

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**Tarkett**  
Tarkett is the second largest manufacturer of flooring material in the world. The Group's product range includes resilient, wooden and textile flooring.

**Match**  
The Match Group is the world's largest producer of "lights", that is, matches and lighters. The Group also conducts forestry and trading activities.

**Doors**  
The Door Group markets a complete range of doors, including internal and exterior doors as well as doors for public buildings. The Group is the market leader in the Nordic countries.

**Alby**  
Alby produces sodium chlorate for the pulp industry and potassium chlorate for the match industry. The Alby Division has production facilities in Europe, North America and South America.

**Kitchens**  
The Kitchen Group is one of Europe's leading producers of kitchen cupboards. Other products include storage cupboards, wardrobes and bathroom cabinets.

**Akerlund & Rausing**  
Akerlund & Rausing is one of the largest packaging companies in Europe. The Group is also a market leader in fields such as disposable table products, decorative paper bags and carrier bags.

Swedish Match is an industrial corporation with business activities conducted through about 150 companies in more than 40 countries in all parts of the world. The Corporation employs approximately 26,000 persons in these companies. Its head office is situated in Stockholm.

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Business activities are concentrated on home improvement and consumer products as well as packaging.

	(Amounts in £ million)	1984	1983
<b>Financial highlights</b>			
Sales		886	766
Operating result		61	54
Result after financial items		39	38
Return on capital employed, %		21	19
Earnings per share (full tax) £		15.9	15.1
Earnings per share after extraordinary items £		2.54	2.37
(UK £1 = SEK 11.03)		6.39	2.37

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## SWEDISH MATCH

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## INTL. COMPANIES & FINANCE

# MAS proposals anger brokers

BY CHRIS SHERWELL IN SINGAPORE

SINGAPORE stockbrokers are angered by legislative proposals which, if enacted, would bring them under the supervision of the Monetary Authority of Singapore (MAS). The Government's powerful regulatory agency for the island state's banks.

The proposals, framed by the MAS and Attorney General's office, are still in draft form. Details remain scanty, but they include the idea of MAS scrutiny of the books of stock exchange members, which would entail the appointment of a MAS representative to the stock

exchange's executive committee. The idea has provoked a horrified reaction, primarily because of the threat to confidentiality but also because direct central bank regulation of the stock market is seen as going too far even in Singapore, where the MAS already has an imposing presence on the watchdog Securities Industry Council.

The timing of the proposal is awkward because a special economic committee, set up by the Government to help determine Singapore's future direction, is expected to discuss

reform of the capital market, including the stock market. This holds out the prospect of deregulation and wider membership of the Singapore Stock Exchange, perhaps including foreign participation. Dr Richard Hu, the Finance Minister, has already spoken out in support of an unlisted securities market and the listing of foreign companies.

The MAS proposals, which coincide with persistent weakness in the market, seem inconsistent with these ideas, and the authorities may yet lighten

the heavy hand of regulation now being suggested. But it is not clear whether the principle of direct regulation will be jettisoned.

Any new legislation would amend or replace the existing Securities Industry Act of 1973, which regulates the Singapore securities industry. The SIC established under the Act administers the Takeover Code and advises the exchange on listings. The stock exchange is otherwise broadly self-regulating.

## Negara urges interest rate cuts

BY WONG SULONG IN KUALA LUMPUR

BANK NEGARA, the Malaysian central bank, is pressing commercial banks and other financial institutions to lower their interest rates to stimulate the economy and to instil business confidence.

In meetings with representatives of commercial banks, merchant banks and finance companies over the past two days, Datuk Jaffer Hussein, the newly appointed central bank governor, also expressed concern over the current low morale within the banking community.

The meetings are held against the background of growing unease about the health of the Malaysian banking system, which sparked off rumours that caused a run at two branches of Public Bank on Monday.

Datuk Jaffer told the bankers that he was unhappy over the wide margin — of 3 to 4 percentage points — between their lending and cost of funds. The margin among Singapore banks is only between 0.5 and 1.5 points.

The governor said he would like Malaysian banks to lower their interest rates after the Moslem fasting month which ends this week.

The bankers responded by saying that the Government could encourage lower interest rates by allowing banks to increase their loan deposits ratio, and reduce lending to the "priority sectors."

At present, about 20 per cent of total bank lending has to go to the "priority sectors," where the interest rate is 10 per cent, compared with the cost of funds, which is around 11 to 12 per cent.

Meanwhile, calm has returned to Public Bank following Monday's stream of withdrawals at its two branches in Ipoh City.

Bankers said the run had ironically highlighted the relatively strong liquidity position of Public Bank, which revealed yesterday that it has placed M\$1.7bn in the interbank money market. They said Public Bank may even have breached the maximum liquidity ratio stipulated by Bank Negara.

Tan Sri Basir Ismail, chairman of the Association of Banks and head of Bank Bumiputra, reiterated the Government's assurance that Malaysian banks are financially sound, and that the Public had over-reacted to rumours.

He said the association would come out "in full support" for any of its members if it facing a similar problem as Public Bank.

On a parent company only basis, results also released yesterday showed pre-tax profits of Y46.75bn compared with Y44.19bn, and net earnings up to Y24.82bn from Y20bn.

Lamach costs for products such as VCRs and compact disc players as well as foreign exchange losses amounting to Y2.4bn—were also responsible for the lacklustre performance.

## Sony ahead despite Betamax slip

By Yoko Shibata in Tokyo

MARKET resistance to the Betamax video cassette recorder (VCR) format hampered the trading performance of Sony, the Japanese electronics group, in the half-year to April.

Betamax sales were down 15 per cent in unit terms on the previous first half, a setback which was only partially offset by strong demand for its video recorders aimed at the professional market.

Nonetheless, a strong contribution from sales in other product sectors enabled Sony and its group companies to report an 8.5 per cent rise in net profits for the period to Y38.11bn (\$153.2m) against Y35.01bn, on turnover 11.8 per cent ahead at Y679.66bn compared with Y667.96bn.

Earnings per American depositary receipt were Y165, up from Y152.

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## HK bank profits decline 92.5%

BY OUR FINANCIAL STAFF

UNION BANK OF Hong Kong, one of the territory's medium-sized banks, yesterday reported a 92.5 per cent slide in 1984 net earnings to HK\$2.8m (U.S.\$0.36m) in accounts which were qualified by Coopers & Lybrand, its auditors.

The reason for the qualification was not made clear, but the earnings result—which compared with HK\$37.7m for 1983—was struck after unspecified provisions and inner reserve adjustments. The figures also came two months later than normal.

On a per share basis, net earnings were 2.8 cents against 38 cents. The final dividend is being omitted, leaving the total payout for the year at 12 cents compared with 50 cents.

Local analysts believe that substantial foreign exchange losses might have been incurred in South-East Asia, with some suggesting Indonesian property dealings as one main source of the problem.

The news brought a 30-cent fall in Union Bank's shares yesterday to HK\$3.55, in a banking sector already under severe pressure following the rescue earlier this month of Overseas Trust Bank (OTB) and the support credit line extended this week to Ka Wah Bank.

Mr David Akers-Jones, the territory's Chief Secretary, confirmed yesterday that Ka Wah had been suffering liquidity problems before the credit line set up on Monday by Hongkong and Shanghai Bank with the Bank of China.

He added that the decision by the two banks was made on commercial considerations, and that the governments of Hong Kong and China were not involved. "It is quite natural that large banks should help out," he said.

## Restructuring for Malaysian Rothmans

BY OUR KUALA LUMPUR CORRESPONDENT

ROTHMANS of Pail Mall Malaysia (RPM), the 50 per cent subsidiary of Rothmans International of the UK, plans a restructuring under which the present Malay equity holding of 4 per cent is to be raised to 30 per cent by 1988.

This would satisfy the objective for Malay equity under the Government's new economic policy.

At the same time, Rothmans International has the right, if it should so wish, to buy additional shares from non-Malaysian shareholders, up to the present level of 50 per cent of RPM.

This plan has been agreed by the Malaysian Trade and Industry Ministry. RPM, with a market capitalisation of some M\$450m (U.S.\$196m) was originally wholly owned by Rothmans International. Half was sold to Malaysian and Singaporean nationals.

## Earnings soar at Harrisons

HARRISONS Malaysian Plantations reports a near-doubling of pre-tax profits to M\$189.46m (US\$76.8m) in the year to March, up from M\$95.77bn, Our Financial Staff writes.

Higher commodity prices assisted a boost in turnover to M\$1.08bn from M\$82.3bn, and the dividend for the year will total 30 cents, up from an adjusted 22 cents. The figures for the first time include contributions from 10 UK-incorporated companies.

For the year ended June 1984, RPM increased net profit 60 per cent to M\$28.3m on turnover which rose 18 per cent to M\$394m.

Chastened by the past experience of having relied heavily on a limited number of consumer products, Sony has been implementing a programme to lift its non-consumer product sales to half the total turnover by 1990, from the current 13.6 per cent.

For the current year, capital outlay is being increased by a quarter to Y100bn.



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### our Balance sheet for 1984

	comparative figures	December 31, 1983
Balance sheet total	DM 1,160.9 million	DM 1,055.4 million
Lending volume	DM 1,153.2 million	DM 1,043.2 million
Business volume	DM 1,262.8 million	DM 1,142.8 million
Reserves and capital	DM 66.4 million	DM 66.4 million

We will gladly send you our Annual Business Report on request

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## INTL. COMPANIES &amp; FINANCE

## Fiat engine output will race ahead at high-tech Termoli plant

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

ANOTHER KEY element in Fiat Auto's recovery programme is in place now that the group's engine assembly plant—possibly the most highly-automated in the world—is up and running at Termoli in southern Italy.

The bill for the project includes \$50m for development of the engine, \$900m for plant and equipment and \$21m to retrain the 950 employees.

Between eight and 12 months of full-time training is required for each worker because the plant requires mainly skilled people. So the programme was started in 1983 and will not be finished until next year.

By that time Fiat will have put the workforce through a total of 1.2m hours of training at an average cost of \$17.50 an hour.

The employees have been selected from those laid off from Termoli in the past two or three years as Fiat dealt with the overmanning there. Those called back have been carefully screened. Fiat looked at previous experience, willingness and ability to adapt—and the worker's age.

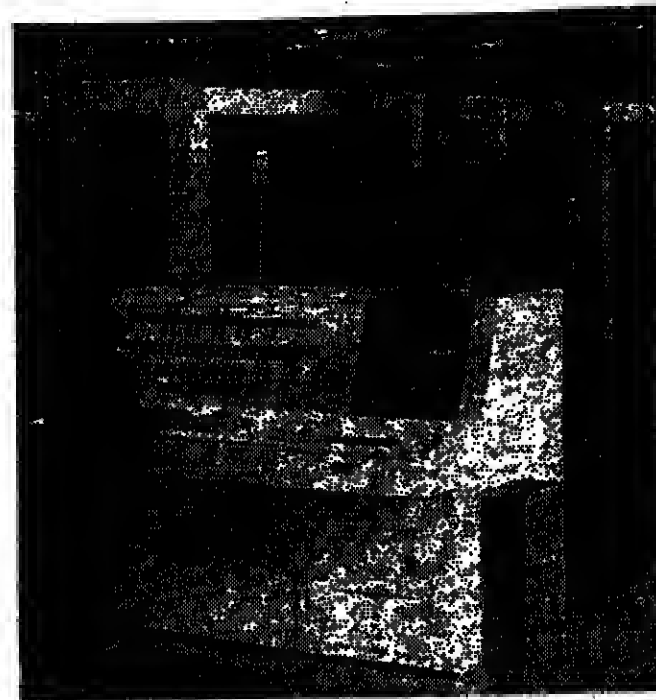
Fiat Auto is making a determined effort to reduce the average age of its workforce in the belief that modern motor industry production methods need more youthful people. The average age of the company's employees is 44. At Termoli 3 (the new engine assembly facility) the average is 37.

The Termoli project is already one month ahead of schedule and producing 800 engines a day. By the end of this year the plant should be turning out one engine every 20 seconds of the working day—an annual rate of 462,000.

If demand rises as Fiat expects, the facility will be working at full capacity by mid-1987: 2,600 engines a day or 572,000 a year. To reach that stage Fiat will have to spend only a little more money and take on another 80 people.

Fiat claims that for the first time in automotive history a new factory has been designed hand in glove with the new engine it is producing.

The engine in question is Fiat's Fire 1000 (Fully Integrated Robotised Engine) which already is being fitted to a new baby car, the Y10, produced by Fiat's Lancia subsidiary. As the Fire 1000 range is expanded, the engines will



The engine assembly plant has a computerised system for supervising production.

also go into some of Fiat's best-selling Uno models as well as versions of the smaller Panda. The project dates back to the late summer of 1983 when Fiat Auto and the Peugeot group of France agreed to join forces in the development of a new medium class car engine to meet the needs of the 1990s.

The objective was to eliminate some machining operations, cut component weight, simplify assembly operations and reduce the number of components in the engine—not to produce a revolutionary power unit.

The original intention was for Fiat and Peugeot to build mirror-image production facilities side by side in southern Italy. But first the Socialist government in France after its election insisted that Peugeot place its plant in France and later Peugeot decided to postpone production indefinitely.

Peugeot's decision was more of a blow to Coman, the Fiat group's production system subsidiary which designed and equipped the Termoli 3 plant and would have done the same for the French company, rather than to Fiat Auto. However, Fiat Auto has had

is relatively low compared with much of the rest of Western Europe.

The Fire 1000 assembly line was developed from Coman's experience with Mirafiori's LAM highly automated system which assembles the Ritmo/Strada 128 engine. But Termoli 3 is 90 per cent automated compared with LAM's 26 per cent and robots are more widely used.

Termoli 3 has no fewer than 78 automated stations compared with 30 at Mirafiori; two manual stations instead of 15; some 16 points where the central computer has a "dialogue" with assembly-line computers instead of two. The assembly line at Termoli 3 employs 56 robots and 82 programmable handlers.

There are 103 computers at Termoli 3, including, in the machining area, 27 dedicated to testing, 45 to diagnosis and one to data control. There are 12 in the stores, seven on the assembly line, nine in the engine testing room and two dedicated to overall production programming and organisation.

What this adds up to, claims Fiat, is that the plant controls itself with computers, runs checks on itself and submits its products for approval by itself. And it is all done automatically.

A major improvement in quality is the main benefit, as far as Fiat is concerned. But the company also wins huge productivity gains.

It takes only 107.5 minutes to make a Fire 1000 engine, against 231.5 minutes for the 25-year-old, 903cc unit used in the Fiat 127 cars—less than half the time. Machining takes only 46.5 minutes instead of 114.4 and assembly 61 minutes instead of 117.1.

Traditional production equipment works for about 75 per cent of the available time. The target at Termoli 3 is to achieve 90 per cent in the machining area, 92 per cent in assembly.

Fiat knows this is possible because some parts of the LAM plant at Mirafiori have achieved the 90 per cent standard.

The company says that, in spite of the heavy investment in capital equipment, the plant breaks even at 70 per cent of capacity (whether that capacity is 2,100 a day as it is at the moment or if lifted to 2,600 a day) and that Termoli 3 should pay for itself in eight to 10 years.

This announcement appears as a matter of record only.

\$480,000,000

Leveraged Lease Financing of Twelve



**Airbus Industrie**

A300B4 Aircraft

leased to

**A. I. Leasing II, Inc.**

and subleased to



**Pan American  
World Airways, Inc.**

The undersigned acted as financial advisor to A. I. Leasing II, Inc. and Airbus Industrie, as Guarantor, and arranged the private placement of the debt and equity portions of this financing.

**Shearson Lehman Brothers Inc.**

June 18, 1985

## RIDING THE CREST OF INTERNATIONAL CONSTRUCTION

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# LOFs seeking further financial support

BY ANDREW FISHER, SHIPPING CORRESPONDENT

London and Overseas Freighters, the heavily loss-making UK tanker company, is now talking with its bankers about further financial help less than a year after receiving nearly \$9m from a rights issue.

"Something has to be done," said Mr Minas Kulukundis, deputy managing director, after LOFs announced a loss of \$9.24m (£7.5m) for the year to March 31, 1985. "We have been actively talking on the possibility of a restructuring."

The attributable loss of \$9.24m after extraordinary items was lower than the previous year's \$16.4m, but the group has been unable to sell the London Enterprise, a 138,000 deadweight ton tanker, to cut its debts. At end-March, these were \$56.5m.

LOFs wanted to sell the 11-year-old vessel for around \$9m, but the market value has fallen

below the \$6.5m book value. Attempts were still being made to sell her, said Mr Kulukundis. "We might sell her at a lower price."

A qualifying note to the accounts, drafted by Moore, Stephens, said they had been drawn up on a going concern basis. "This assumed adequate credit facilities would continue to be made available and did not take account of adjustments which might be necessary if it could not continue as a going concern."

When raising the \$8.8m rights issue money, LOFs said its aim was to ensure continued trading until the shipping scene improved. But while the five-vessel fleet had lifted earnings, ships' values had not risen in the continuing world tanker crisis.

In the annual report it stated:

"We now envisage a position where, on the basis of current conditions, insolvency of liquid resources with which to continue trading will arise in this financial year."

In that event, it added, "the group will require a further accommodation from its bankers."

The board "continues to do its utmost to ensure the survival of the group." Last night the shares stood at 14p, down 0.1p, having been suspended last July at 8p ahead of the rights issue.

Mr Kulukundis did not say what direction the talks with the banks were taking. But with liquidity likely to run out in the financial year, "something has to be done before the end of 1985." The banks had been responsive, he added.

LOFs' main banks are William & Glyn's and Bank of Nova

Scotia, with Bankers Trust also involved through its financing of the Overseas Argonaut tanker, in which the company bought the outstanding half-interest two years ago. Underwriting for the rights issue was arranged by Hill Samuel.

The company's actual loss on trading was \$4.8m against \$8.7m—it began accounting in dollars at the end of last year—before interest charges of \$6.9m (same) and net currency gains of \$1.6m (\$28,000) on loan repayments. The final loss per share was 5.1 cents (27.5 cents).

Mr Derek Kimber, the chairman, said in the annual report that the world shipping scene remained bleak. Tankers of the size owned by LOFs would be among the first to benefit from a market upturn, but new ships were still being delivered to add to the tonnage surplus.

"We're not too despondent about the market," commented Mr Kulukundis. "The critical factor is the fall in vessel values. The industry as a whole is in a very depressed state."

The rights issue, he said, "was based on the hope that values would increase, but they've very much done the opposite."

Earnings from the ships were contributing to interest payments. But LOFs did it say no signs of an imminent rise in earnings. "On the contrary, there is cause for anxiety in the apparent levelling-off of economic growth in the industrialised world and further weakness in oil prices."

The board said it was convinced freight rates would return to a level where investment would be justified by earnings and ships' values would recover. But, it added, "when this will happen remains unpredictable."

## Silentnight warns of a break-even at midyear

A STRIKE at Silentnight Holdings has ended the group's recovery and for the first six months in July only a break-even position is forecast—last year profits totalled \$1.1m.

Revealing this at the AGM, Mr Tom Clarke, the chairman, said however, that the strength of the balance sheet enabled the group to pursue a medium-term strategy which included strengthening the management, both at the centre and at some of the subsidiaries, including the Silentnight division.

To deal with its industrial relations problems Mr. Tony Pugh, who recently retired from a post in ACAS, has joined Silentnight in an advisory capacity.

● Systems - Reliability heard that group sales for the first five months were in line with budget and showed a satisfactory improvement on the same period of last year.

The outlook for the rest of the year was described as encouraging.

## Big pay rise for Tootal chairman

TOOTAL, the textiles group, gave Mr Alan Wagstaff, the chairman, a 47 per cent increase in remuneration in the year to January, taking his earnings up from £22,187 to £32,508, the company's annual report shows.

Entred, the Australian textile group, launched an unsuccessful bid for Tootal in February and still holds 29.9 per cent of the group.

## British Tar up 34% and plans £10m acquisition

REPORTING a 34 per cent increase in pre-tax profits for the year to March 31, British Tar Products, with interests in bulk storage and chemical manufacture, has also announced the proposed acquisition of Isinglass Manufacturers for £9.8m.

The group's pre-tax result (up from £1.87m to a record £2.5m) was achieved on turnover slightly lower at £28.15m, and despite the fact that the miners' strike severely disrupted UK supplies of naphthalene, one of the group's major raw materials, which resulted in significantly increased raw material costs.

As indicated at the time of the interim statement, the directors are recommending a final 2.3p (2.2p) dividend, making a total of 3.5p (3p) for the year. The record earnings of 7.09p (6.8p) per share, basic, and 6.82p (5.82p) diluted, were achieved despite the substantial increase in tax, from £553,000 to £914,000.

The group's comparative figures include turnover of £4.83m and profits of £145,000 from Wymouth Lehar end Fatinis, which was sold on March 9, 1984.

Mr Francis Buckley, the chairman, says that BTP's performance during the year reflects the success of the policy of substantial investment in new plant and of building local facilities to provide technical support to its customers worldwide.

The current year, he says, has started well, and the remainder of the year are encouraging.

The group's investment programme involved a commitment in excess of £1m in new plant. The policy of building up local facilities has been particularly successful in the U.S. and, in line with the policy, in March 1985 BTP purchased W. E. Lewisham (Merchants) of Auckland, New Zealand, a company with which BTP has a long association.

This acquisition ensured the continuity of marketing efforts by the group in the South Pacific, and enabled it to provide technical support to customers in the region.

BTP believes that the proposed combination of the resources of the Isinglass Manufacturers group (IML) in the UK and the U.S. with those of the chemical companies within the BTP group provides a prime opportunity for continuing strategic development and growth of BTP.

The acquisition will be satisfied by the issue of 9,500 new ordinary shares in BTP. The new shares have all been conditionally placed by S. G. Warburg and Company at 100p per share. The brokers are Cazenove and Company.

To provide ordinary BTP shareholders and holders of its convertible loan stock with the opportunity to acquire an additional investment at the placing price, 4.50p (46.5 per cent) of the new shares will be available to such shareholders pro rata on the basis of one-for-five to their existing holdings, or to the shares arising on conversion.

BTP's shareholders' funds stood at £10.61m at end-March 1985, against £9.44m a year earlier.

● Comment  
British Tar Products' proposed acquisition of Isinglass Manufacturers is in line with its strategy of expanding its speciality chemicals activities. Within the group, Hodgson Chemicals and Nipe Laboratories already produce chemicals for the pharmaceutical, leather, hygiene and cosmetics industries. Isinglass, a major supplier of clarifying agents, will bring the group a third chemical business. Both the brewing industry, Isinglass has a strong market position and its growth record is impressive. Much of its expertise in sterilisers, preservatives and anti-oxidants is complementary to BTP's existing business. The group will be looking for benefits in the merging of markets and know-how. The City took the news of the acquisition and an accompanying placement calmly. Profits were towards the top end of brokers' expectations—enough to support 10p share price of 110p, down just 1p. This contrasts with the loss of 10p on a historic multiple of 16.

## BIDS AND DEALS IN BRIEF

### Bowthorpe in U.S. expansion

Bowthorpe Holdings, manufacturer of electronic and electrical components, is buying California company, Monitor Products, for \$6.75m (£5.2m) in cash.

Based in Crawley, Bowthorpe has 21 overseas subsidiaries and has said that it was negotiating the purchase of four U.S. component businesses. Monitor Products makes crystal quartz-based frequency oscillators used in civil and military electronic equipment.

Of the total purchase price, \$0.5m will be held in escrow for 12 months. The deal is expected to net Bowthorpe of \$1.65m on the date of completion and on its pre-tax profits for the preceding 12 months ended March 31, 1985. In the year to February 28 1985 it had pre-tax profits of \$1.39m.

Bowthorpe had net cash of £20m at its last balance sheet.

RADIO CITY (SOUND OF MERSEYSIDE) has offered to acquire Marcher Sound in exchange for 120,038 A ordinary shares. Indications have been received from the holders of about 57 per cent of the share and loan stock of Marcher Sound that they will accept.

For the year to the end of September 1984, Marcher showed a pre-tax loss of £171,000 with assets of £88,000.

MR D. A. LANDAU is a non-executive director of MAM, not of Chrysler, as was stated in yesterday's edition.

GIEVES GROUP has acquired the London Renault dealer, Fred Gny, for £450,000, the price having been met by the issue of 520,652 new ordinary shares in Gieves. The shares have been conditionally placed with institutional clients.

WILLIAMS HOLDINGS has disposed of the scrap metal interests of J and H Jackson to Duns Bros. (Metals). Consideration for the properties and fixed assets amounted to £12.25m cash. In addition, Williams will be realising the working capital of the businesses and the is expected to release up to an additional £750,000 in cash during the next few months.

BRITISH Syphon Industries has sold A. H. James & Co to that company's managing director and his colleagues for £35,000 cash.

An intra-company loan of £265,000 was repaid to British Syphon shortly before its completion date. British Syphon has also sold its 49 per cent interest in Thomas Radcliffe for £49,000.

### Windsor vote claim

A dissident investor group at Windsor Securities claimed yesterday that the holders of 48 per cent of the company's shares supported its plans to wrest control from the existing management through a boardroom shake-up.

Windsor shareholders will vote at an extraordinary meeting a week today on resolutions put forward by Lander Investments to appoint four new directors to the company. As Windsor has just three directors, this would give management control to the newcomers. Lander has a 14.9 per cent stake in Windsor.

Mr Maurice Fullerton, chairman of Windsor, said earlier this week that he was negotiating the purchase of an unnamed "rapidly growing business in the insurance sector" but the vendor would not go through with the deal unless the Lander resolutions were rejected.

Mr John Carr, chairman of Lander, yesterday replied that if the deal was beneficial for Windsor, there was no reason why it should not proceed in conjunction with Lander's plans for the business.

"Our information, however, leads us to believe it is an arrangement being negotiated in a hurry, for the purpose of diluting Lander's support, and protecting your chairman's position," Mr Carr added.

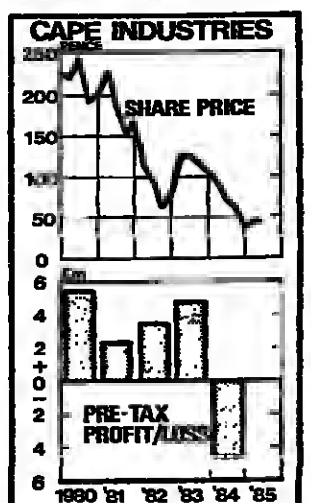
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## Cape Inds trading profitably after sales

AFTER major restructuring Cape Industries has reported losses for the 15 months to March 31, 1985 of £4.49m compared with profits of £249,011 (£214,035). Continuing business, however, reported profits for the period of £6.52m against 1983's £8.02m on turnover of £179.62m (£130.58m).

After tax and extraordinary losses of £23m, associated with



the sales and closures of the insulated metal cladding business and the automotive operations, funds were reduced by £37m. The final has been passed, as was the interim. For 1983 a total payment of 5.6p net was made.

Following the reorganisation, which left the company in building products and industrial contracting, directors say that the gearing was unsatisfactory. That was largely corrected by a £5.5m rights issue which was taken up by 92.9 per cent of the shareholders and left Charter Consolidated with an unchanged holding of 67 per cent in the company.

Together with the cash raised from the disposal of two divisions and other assets the directors say that there will be a marked reduction in debt and during the present year it is anticipated that the balance sheet will be restored to a satisfactory position.

Both the remaining divisions enjoy strong positions in their markets the directors say. In building products all but one of the units had a good year with profits improving by 25 per cent overall on an annual basis.

After a good record for many years the contracting division had a disappointing year. However the loss at nine months was eliminated by the end of the period when profits were giving confidence for the future.

The specialist building products are expected to hold their own, though the cladding market is likely to remain difficult. Little or no growth is expected in contracting, but the division should recover from its recent difficulties and improve its level of profitability.

## Mansfield plans loan/debenture mix to fund £42m buy

BY LUCY KELLAWAY

Mansfield Brewery yesterday published details of its proposed £42m acquisition of North Country, the brewing division of Northern Foods.

The ambitious deal is to be funded through the issue of £20m-worth of 25-year debenture stock, with the balance coming via medium-term bank borrowings. The two moves together will leave the Nottinghamshire-based brewery with a debt-equity ratio of around 100 per cent.

Mansfield simultaneously unveiled slightly disappointing results for the year to March 31, 1985, with profits marginally down at £7.8m against £8.4m in sales of £72m (£68m).

The acquisition of North Country will more than double Mansfield's number of owned outlets to 400, increasing by 400 the number of free outlets it supplies. Most of these are in the Hull area, bordering on the South Yorkshire and Nottinghamshire regions which Mansfield already supplies.

Mansfield plans to close North Country's Huddersfield and supply the outlets itself. North Country made profits of £1.8m in the year to March 1985 on sales of £23m.

The company says that the acquisition will provide a valuable increase in its geographical base and that the long term prospects are encouraging.

The debenture, which has an 11.5 per cent coupon, matures in 2010, and is issued at £99.99 per cent. The medium term loan is for seven years, with repayments of principal starting in 1988 and has been underwritten by Samuel Montagu.

Most of the drop in Mansfield's profits last year came from the soft drinks division. A 64 per cent fall to £528,000 on almost unchanged sales was blamed by the management on competitive pricing in the soft drinks market.

Profits from brewing increased marginally to £7.8m (£7.5m); and to offset the serious effect of the miners' strike on sales of draught beer, the company was successful in increasing sales of beer in hard plastic bottles.

The company says that steps have been taken to turn the soft drinks division around but that the full effects have yet to be felt. Upset by poor weather, and

depressed by the aftermath of the miners' strike, trading is progressing slowly in the brewing division.

The profit before tax was arrived at after charging interest £767,000 (£526,000), and crediting £113,000 (£50,000) investment income. The tax charge rose to £3,302 (£3,211), with earnings per share 17 per cent lower at 29p.

The directors are recommending a final dividend of 6.0p a share to make a total of 8.25p for the year, an increase of 3.1 per cent.

● comment  
The management of Mansfield has stressed that the benefits from North Country are of a long-term nature. Indeed any investors not prepared for some dilution of earnings over the next couple of years should look elsewhere, although those willing to wait the distance may be well rewarded. Mansfield's ability to make money out of what were not promising, however, it will need every inch of that experience if it is to meet its target of a 300 per cent increase in North Country's share price over the next two to three years. Making the acquisition pay for itself could suddenly become even more difficult if interest rates rise, pushing up the payments on the term loan. Mansfield's foray into soft drinks has been disastrous, and the profit this year was much lower than the City had been expecting. Capacity has now been cut and management changed, which could bring profits back up to around the 1984 level. Giveo improved profits from brewing, and a contribution of about £2m from North Country, the total may be unbalanced at £8m, but over 15m in interest. After a 40 per cent tax rate that would put the shares at 367p, on an enthusiastic multiple of about 12.

George Wimpey  
Mr Clifford Chetwood, chairman of George Wimpey, told the AGM that the sales of private houses in the current year were ahead of target and of those achieved for the same period of 1984. In yesterday's report this was attributed to Sir Reginald Beaumont Smith, a former chairman.

## DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corporation tax	Total for year	Total last year
Cape Industries	nil	—	3.9	5.6	5.6
Barlows	7.5	July 18	7.5	7.5	7.5
Berkley Group	2.4	Aug. 20	—	3.6	—
British Tar	2.3	—	2.2	3	3
Centrovital Est.	2.3	Oct. 7	3	5	6
Countrywide Props.	20.3	Sept. 6	1.82	22.1	20.4
Erskine House	1.9	July 29	1.5	2.5	1.5
J. H. Fenner	2	—	2	5	5
GEC	3.91	Aug. 5	3.56	5.85	5.32
Mansfield Brewery	8	—	5.75	8.25	8
Meyer Intl.	3.45	Sept. 5	3.1	5.25	4.75
Platn Intl.	1.87	—	nil	2.8	0.58
Steinberg	1.2	Aug. 30	1.2	2.2	2.2
Watson & Philip	1.7	Aug. 9	1.5	3	5
Waterbottom Engr.	0.2	Aug. 2	0.2	1.55	—

Dividends shown pence per share net except where otherwise stated. \* Equivalent after allowing for prior issues. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Includes special bonus of 0.55p.

## Meyer International

### A satisfactory result despite reduced demand in second half year

Mr. Ronald E. Groves, Chairman, reports:

- \* Pre-tax profits at £30.3 million were slightly down on the previous year (£32.7 million) but earnings per share increased from 19.2p to 20.4p.
- \* Final dividend 3.45p, making the total for the year 5.25p, an increase of 10% on last year and of 40% since the 1982 merger.
- \* The Forest Products Division experienced mixed trading conditions with reduced consumption but achieved a satisfactory result. The added problems created by violent currency fluctuations were successfully overcome.
- \* Jewson consolidated their position as the best known builders' merchant group in England and Wales as their TV and catalogue — led promotional campaign entered its second year.
- \* The Manufacturing companies had a very satisfactory year, Crosby Kitchens performance being outstanding.
- \* The contribution from the Overseas operating companies was inadequate. Following senior management changes, an improved performance is expected.
- \* Disposals of operations and investments outside the main stream of activities realised some £5 million. Further sales of surplus assets are expected to yield over £14 million over the next 2 years.
- \* Net Borrowings, reduced to £26 million, now represent only 15% of Shareholders' Funds.
- \* Net assets per share increased during the year by 7% to 184p, despite reductions through revaluation. All Group properties are now valued for existing use.

### Future Prospects

"Despite the difficulties we face in 1985 there is confidence that our businesses will make a good showing."

Copies of the Annual Report, containing the Chairman's Statement in full, may be obtained from The Secretary, Meyer International plc, Villiers House, 41-47 Strand, London WC2N 5JG.



## HARRISONS MALAYSIAN PLANTATIONS BERHAD

(Incorporated in Malaysia)

PRELIMINARY REPORT FOR THE YEAR ENDED 31st MARCH, 1985  
The Directors announce that the unaudited results for the year ended 31st March, 1985, were:

	1985	1984	% Increase/Decrease
Turnover	Group M\$'000 1,067,866 Company M\$'000 38,215	Group M\$'000 582,297 Company M\$'000 18,436	83 107
Investment and other income	20,669	108,447	9,660 51,369
Operating profit	157,456	130,348	94,816 82,316
Associated companies	2,003	—	— 82
Profit before taxation (See Note 1)	159,459	130,348	95,785 82,316
Taxation (See Note 2)	73,263	54,108	44,106 33,463
Profit after taxation but before extraordinary items	116,196	76,240	51,862 48,853
Minority interest	36	105	— (66)
Extraordinary items (See Note 3)	116,160	76,240	51,557 48,853
Profit attributable to shareholders	119,703	76,240	60,249 48,853
Dividends	76,138	76,138	48,086 56
Retained profit for year	43,565	102	12,263 767

NOTES:	1985	1984	% Increase/Decrease
(1) After charging interest	1,383	176	2,360 490
— Depreciation	20,869	133	15,522 53
(2) Taxation includes	—	—	— 13
— Malaysia	71,047	54,108	43,388 33,463
— U.K.	2,707	—	412 557
— Associated companies	463	—	308 51
— Over-provision of U.K. tax in respect of previous years (1984)	—	—	— —
(3) The extraordinary items comprise the following:	—	—	— —
Profit on sale of land by subsidiary companies	1,365	—	4,417 (69)
Profit on sale of shares by subsidiary companies	1,954	—	— —
Surplus from liquidation	224	—	— —
Share of profit on sale of estate by an associated company	—	—	4,375 (100)
	3,543	—	3,792 (60)

	1985	1984	% Increase/Decrease
Profit after taxation but before extraordinary items as percentage of turnover	11.0%	8.9%	—
Profit after taxation but before extraordinary items as percentage of shareholders' funds	7.1%	3.9%	—
Net earnings per share (in sen)	23.4	14.2	—
Net tangible assets backing per share	M\$3.86	M\$3.61	—

Turnover for the Group showed a substantial increase of \$474 million or 82 per cent over last year. This was achieved mainly by increased sales in Malaysia and to a lesser extent higher commodity prices for all crops except rubber. Operating profit increased by some \$28 million largely due to higher oil palm crops, firm palm oil prices and improved trading conditions in the palm oil refining industry. The post-acquisition profits from the ten U.K. plantation companies made a satisfactory contribution to the Group.

	1985	1984	% Increase/Decrease
Profit for the first half year after taxation but before extraordinary items	69,095	15,515	345.3
Profit for the second half year after taxation but before extraordinary items	47,065	36,042	30.6

CURRENT YEAR'S PROSPECTS  
Production is expected to be in line with last year. Commodity prices so far, however, are generally lower than last year and if this trend continues, results for the current year are not expected to match the exceptional level of the year just ended.

DIVIDENDS  
(a) The Directors have declared a 2nd interim dividend of 10 sen per share less tax payable on 8th August, 1985, and will propose at the Annual General Meeting to be held on 7th August, 1985, a final dividend of 10 sen per share less tax, which will be payable in January, 1986.  
(b) The 1st interim dividend of 10 sen per share less tax was paid on 26th April, 1985.  
(c) The total annual gross dividend per share 30 sen (22 sen).

	1985	1984	% Increase/Decrease
Rubber	51,545	47,492	—
FFB	787,698	582,499	—
Palm Oil	111,441	117,103	—
Palm Kernels	46,455	35,838	—
Cocoa	5,944	5,899	—
Copra	6,063	5,866	—

NOTES:  
(i) Turnover, profits and harvested crops of the newly acquired companies are included from date of acquisition.  
(ii) The newly acquired companies in the Group have changed their accounting year ends to be in line with the holding company.  
(iii) Earnings and dividends per share have been adjusted to reflect the effects of the share capital as enlarged by the recent acquisitions.

By Order of the Board  
ZAINAL ABIDIN JAMAL  
Secretary

Kuala Lumpur  
18th June, 1985



## UK COMPANY NEWS

## Fenner hit hard by miners' strike

J. H. Fenner, the Hull-based power transmission engineer whose profits recovered strongly in 1983-84 after three years of costly rationalisation, returned figures some 60 per cent lower for the first six months of the current year.

Mr Peter Barker, the chairman, tells shareholders that as he predicted in his annual statement the prolonged miners' dispute had a severe impact on the results, especially as business with the UK mining industry involves more than a quarter of UK turnover.

For the six months to March 2, 1985 group pre-tax profits fell from a revised £2.04m to £943,000. Mr Barker estimates that the loss of pre-tax profit due to the dispute was in excess of £1.5m and adds that demand from the NCB is likely to be sluggish for some time yet.

Last August in their successful defence against a takeover by Hawker Siddeley the directors forecast a major increase in 1985-86 profits, a 50 per cent dividend increase for the current year and first-class medium and longer term prospects.

They are mindful of the undertakings given concerning the dividend, but having regard to the actual trading results for the opening half year, say they do not consider it appropriate to increase the interim and have declared an unchanged 2p net.

Reported pre-tax profits for the 1983-84 year totalled £8.07m (£4.5m) although these have since been adjusted to £5.02m in accordance with the change of status of Fenner (India) which is now a related company.

Mr Barker says there is no prospect in the short-term of recovering the lost ground in the current year. He believes, however, that now that some of the major problems besetting the group have been resolved, shareholders can look forward to Fenner resuming the pace of recovery it demonstrated last year.

Group turnover for the first six months edged ahead from £78.52m to £79.5m. Operating profits improved to £3.22m (£2.35m) but were subject to a £488,000 share-related company losses, compared with previous profits of £284,000, and

£249,000 rise in net interest charges to £2.52m. Apart from the miners' dispute, the results were further depressed by the continued commercial unrest in India.

The directors say the programme to realise in excess of £10m from the disposal of assets is progressing well. Earlier this week Fenner announced that it was selling Fennermech, its division making industrial materials handling systems, to Figgie International Holdings of the U.S. in a move to cut its borrowings by £7.2m.

In April, the group said it was cutting 150 jobs from its power transmission division as part of a restructuring exercise to reduce unit manufacturing costs. The offer by Hawker, launched in June 1984, lapsed two months later following a low acceptance level.

Mr Barker's timetable for a reduction of gearing and increased dividend payments has been frustrated by the length of the miners' strike and the turmoil in the Punjab. The post-

strike slow down in purchasing by the NCB has also delayed the recovery — possibly until after the group's trading year ends in September. What does remain on target is the £10m asset disposal programme which should see year-end gearing significantly down from 7.1 present two-thirds of share-holders' funds. Some brokers are detecting in the fulsome interim statement the makings of a pre-emptive defence document and there has to have been something in the share price for the speculation that Hawker Siddeley might seek a return match — last summer it offered about 140p a share for Fenner but was beaten off just short of victory. Hawker still holds some 25 per cent of Fenner. For the full year the analysts are showing continued caution, trimming forecasts to around 41p pre-tax. This has the shares trading at a prospective multiple of almost 13 (25 per cent tax) at 125p down 10p. Short of a bid — which would surely force the group's hand on finalising its 50 per cent dividend increase promise — this seems about right.

Mr John Ivey, the chief executive, said: "We have been expanding quite rapidly over the past year, and now we want to expand further."

Sunlight shares fell 7p to 26p on the stock market yesterday. The company has spent £10m on acquisitions, new plant and reorganisation, financed by the issue of £10m in new shares and by £7m in increased borrowings.

The immediate effect of the rights issue will be to cut down group net debt standing at £11m. But the company says it plans further expansion, investing in its security division, and in its workwear division, including the construction of a new £1m laundry.

## Sunlight Service calls for £7.7m to finance expansion

BY STEFAN WAGSTYL

Sunlight Service Group, the laundry, cleaning and security company which fought off a takeover bid from Securix Holdings in 1983, is asking shareholders for £7.7m with a one-for-four rights issue.

The cash call comes after an 18-month period in which the company has spent £10m on acquisitions, new plant and reorganisation, financed by the issue of £10m in new shares and by £7m in increased borrowings.

The immediate effect of the rights issue will be to cut down group net debt standing at £11m. But the company says it plans further expansion, investing in its security division, and in its workwear division, including the construction of a new £1m laundry.

Mr John Ivey, the chief executive, said: "We have been expanding quite rapidly over the past year, and now we want to expand further."

will carry the final effect of the group's reorganisation programme.

The issue has been underwritten by merchant bank Kleinwort Benson. The broker is Horro Govett.

News of the rights issue brought Sunlight Service shares down to their lowest point since the 1983 bid battles brought a spurt in the cleaning companies' sector. The company can hardly be blamed for the fact that the stock market as a whole has receded into a thing of the past. But its stock market performance has had to cope with the issue of some 4.5m shares in the past 18 months, not to mention yesterday's rights issue, which came as no great surprise.

The company seems to have put its resources to good use building up all five divisions and in particular getting to grips with the problems of St George's. Nevertheless, the group has to make ground in tough markets, in which conditions are, if anything, more competitive now than a year ago. Moreover, Sunlight has not yet finished spending money on reorganisation and expansion — it will be next year rather than this that shareholders can expect a real return on their investment. The yield of 6.5 per cent on an ex-rights price of 26p should, however, be attractive enough to tempt shareholders to bear with the group.

## Baillie to launch trust for smaller Tokyo market

BY STEFAN WAGSTYL

FUND manager Baillie Gifford is launching a new investment trust to specialise in small Japanese companies.

Baillie Gifford Shin Nippon is coming to the stock market with a capitalisation of up to £5m. In an offer for subscription underwritten by merchant bank Kleinwort Benson, up to 10m shares in the company are being offered at 50p each.

Baillie Gifford is one of the most successful of UK fund managers investing in Japan. Its Baillie Gifford Japan Trust was the top performing investment trust in terms of total return on net assets in both 1983 and 1984. The new trust is to concentrate on companies with an annual turnover of less than 500 yen (£188m). While the managers do not rule out the possibility of investing in the Tokyo Stock Exchange's First Section (for larger companies), they believe that they are more likely to find suitable companies in the Second Section and in the over-the-counter market.

Shares offered in the issue will carry warrants, with one warrant for every five shares entitling the shareholder to subscribe for one share at 50p any time between 1986 and 1988.

The application lists are to close on June 25 and dealings are expected to start on July 1. The broker is James Capel.

Investors looking for a new opportunity to invest in Japan could do far worse than this offering from Baillie Gifford. The City's positive view of this fund manager is amply demonstrated by the fact that Baillie Gifford Japan trades at a discount to net asset value of just 4 per cent against a market average of 23 per cent. The same management will take charge of Shin Nippon. Investors must of course take a view on whether or not now is the time to invest in Japan with the Tokyo stock market close to its all-time peak. But Baillie Gifford clearly believes that its timing is right, particularly for smaller companies which have fallen significantly behind their larger brethren in recent months.

Appletree for USM Cambridge Instrument Company is planning to obtain a full Stock Exchange listing next month via an offer for sale sponsored by Kleinwort Benson.

The company is engaged in the manufacture of high technology and industrial automation products. It was reorganised in 1979 under a new management team and over the past five years to end-March 1985 losses of £565,000 have been turned into taxable profits of £421m.

At the placing price the shares are on a prospective earnings multiple of 13.6, after a tax charge of 35 per cent based on an annual dividend of 2.5p the yield is 2.5 per cent. Dealings begin on June 25.

Kalon issued at 30p Shares in Kalon Group, which has been created by the merger of Leyland Print and Wapsee and privately-owned Kalon, have been placed on the stock market at a price of 30p.

This compares with a last price of 34p for Leyland shares before they were suspended when the merger was announced in April. Under the terms of the merger, Leyland issued 0.55 to Kalon shareholders, giving them over 78 per cent of the enlarged group. Of these new shares, 10m are being placed on the market on behalf of Kalon's chairman, Mr Leslie Silver, by S. G. Warburg and Co. Wapsee, Bank through Capewell and Williams de Broe Hill Chaplin.

Full listing particulars of Kalon are published today. Dealings in the company are expected to start on Monday.

Micro Scope The offer for sale of 32m shares in Micro Scope attracted 890 applications for approximately 3.25m shares. All applications for less than 200,000 shares will be allotted in full with the rest receiving about 90 per cent of the amount applied for.

## Platon expects all-round boost from acquisitions

THE proposed acquisition of K & N Electronics and Dilett Electronics by Platon International is projected to boost the group's performance with turnover expected to increase from the current level of £3.5m to £7.7m, with profits after tax showing something like an 88 per cent increase.

In a circular accompanying Platon's results for the year to March 31 1985, Mr Gilbert Platon, the chairman, says that profit margins will benefit from in-house manufacture — 1/6 group will be diversifying into new advanced technology market areas, notably defence electronics and computer systems.

The projected figures, he says, do not take account of planned growth for the two companies, particularly the application of Platon's overseas marketing expertise.

He says the two acquisitions will be completed for a total payment of £1.76m, financed partly

by issuing 482,759 new ordinary shares in Platon, which have already been placed with 88 institutional and individual shareholders, partly by Platon absorbing existing bank borrowings, and partly by the issue by Platon of an unsecured convertible loan note (value £601,000) to FTI on completion.

Meanwhile, Platon's figures for its first year on the USM have been characterised by heavy investment, improved turnover and, as stated, by the acquisitions.

Group turnover was 12.9 per cent higher at £3.52m (£3.12m), with net profit before tax up from £294,382 to £440,000. There was a lower tax charge of £57,101 compared with £109,677, leaving attributable profits of £270,638 (£253,672). A final dividend of £1.5p (nil) is being paid for a total of 2.5p net, and this absorbs 588,286. Last year only an interim of 0.58p was paid.

Stated earnings per 25p share improved from 9.16p to 13.17p after tax and minorities.

## Countryside 53% ahead and set for record year

WITH FIRST half pre-tax profits up by 53 per cent, the directors of Essex-based Countryside Properties are hoping to achieve a fifth successive record year.

They are encouraged by an improving market for the group's commercial and industrial property schemes as well as a buoyant market for its new housing.

For the opening six months to March 31, 1985 pre-tax profits improved from £568,000 to £869,000 from turnover £2.51m ahead at £12.81m. Sales of new houses accounted for 49.8m and proceeds from other property development for £3m.

Earnings rose from 8.6p to 13.4p and 1.2e interim dividend is being lifted to 2.03p net per 25p share, an increase of 11 per cent over last time's 1.82p.

Mr Alan Cherry, group chairman, says that the 25p share increase in interest rates during the period did not have an

adverse effect on Countryside's new housing sales.

"On the contrary, the rate of sales reservations has been very good and forward sales are currently at a record level," he tells shareholders in his interim report.

The group's commercial and industrial property development activities are progressing with the sale of the Orlington office building and the letting of most of the space in the Waltham Cross building.

Construction work is making good progress on the remaining unit of phase two of the Hook Rise Industrial development on the Kingston-by-Sea, which is pre-let to Plessey and forward sold to an institutional investor.

Mr Cherry is also progressing on the new Warley Hill Business Park at Brentwood. Mr Cherry says the largest of the four proposed office buildings has been built and the letting of inquiries for the other buildings is most encouraging.

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## MINING NEWS

## Gold dredger to be floated on the Toronto exchange

BY GEORGE MILLING-STANLEY

A NEW gold mining venture is to be launched on the Toronto stock exchange within the next 10 days by means of a public offering of 2.4m shares in Osborne and Chappell Goldfields, at a price of US\$5 per share. The offering is being made through Herit Investment and Bell Guinness.

The parent company, Osborne and Chappell International, is best known for its expertise in tin dredging in Malaysia, where it has been active since the end of the last century. The company has had its origins, however, in early gold developments in Australia. OCI owned a 56.6 per cent interest in the gold company.

The company plans to apply its experience in dredging to tin in the similar business of extracting gold from placer (alluvial) deposits. Initially in South America and later in the U.S. and Canada.

The issue is expected to raise a net \$11m. It will be used to finance 50 per cent participation in two joint-venture gold dredging operations, one in the Mato Grosso region of Brazil and one in Ecuador. Both of these single-dredge operations are expected to be in production by the end of 1986. From 1987, the combined annual output is estimated at 33,000 ounces of gold.

At present gold prices, the annual production would have a gross value of almost \$100m. With operating costs estimated at \$180 per ounce, the company is expecting a short payback period of some 18 months.

The funds realised will be used to finance three further dredges on the sites, which should lift annual gold output to 120,000 oz by 1990. Thereafter, the company plans further ventures in eastern Canada and Idaho.

## MINING NEWS IN BRIEF

Pay rises of up to K65 (£21) a month have been given to miners at Zambia's state-owned copper mines. This follows a week-long strike by the men who said they could not afford pension fund contributions in addition to tax, social security and union membership payments.

The strike resulted in the loss of 4,000 tonnes of copper output out of a yearly total of 860,000 tonnes and more than 4,000 workers were sacked. Appeals against dismissal are being heard by the Zambian Central Industrial Court. Copper Mines management.

Australia's Peke-Waldeen is to farm in on a gold prospect at Bimurra in the Dwyer Basin of central Queensland which is under option to the unlisted Menzies Gold. Peke will earn up to a 60 per cent interest in the prospect by spending AS\$95,000 (\$495,000) on exploration. The area is stated to contain gold mineralisation similar to that at Pajingo where Dwyer Mining has obtained high grade drill results. Peke has a 42 per cent interest in Menzies Gold.

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Shares, Turnbull & Co. Limited, Members of The Stock Exchange, 3 Moorgate Place, LONDON EC2R 6HR Telephone: 01-638 5699 Telex: 883201

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19th June, 1985

## Granville &amp; Co. Limited

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## Over-the-Counter Market

High	Low	Company	Price	Change	Gross Yield	P/E	Fully
146	123	Aer. Brit. Ind. Ord.	145	—	8.8	4.5	8.0
151	135	Aer. Brit. Ind. CULS	141	—	10.0	7.1	—
77	59	Armstrong Group	65	—	8.5	12.1	5.5
23	26	Armstrong & Rhodes	38	+	2.5	7.6	6.8
198	108	Bardon Hill	188	—	4.0	2.6	20.8
42	42	Bray Orythmologies	40	—	3.8	8.6	7.3
201	161	CCCL Ordinal	183	—	12.0	7.4	4.0
152	105	CCCL 11pc Conv. Pref.	105	—	16.7	14.9	—
124	124	Carborundum Ord.	125	—	4.5	3.8	6.2
83	83	Carborundum 7.5pc Pk	82	—	10.7	12.9	—
73	46	Corbush Services	46	—	6.5	3.1	4.4
182	179	Frank Horrell Fr.Ord.	182	—	6.8	3.8	13.5
32	25	Frederick Parker	28	—	—	—	—
51	50	George Blair	51	+	1	1	8.2
50	20	Imperial Castles	21	—	2.7	12.9	—
218	180	Isla Group	180	—	15.0	6.3	7.1
124	101	Joachim Group	101	—	5.5	5.1	7.2
265	213	James Burrough	220	—	12.0	8.0	6.2
93	83	James Burrough Doc Pk	80	—	12.8	14.3	—
124	124	John Howard & Co.	125	—	8.0	5.3	—
225	100	Lingaphone Ord.	222	—	15.0	16.3	—
100	82	Lingaphone 10.5pc Pk	82	—	8.3	1.1	27.3
850	300	Minibus Holding NV	320	—	15.0	7.3	—
129	31	Robert Jenkins	67	+	5.0	7.3	26.3
60	28	Scutcheon "A"	34	—	6.7	16.8	7.8
32	27	Torday & Carlele	25	—	4.3	1.3	18.5
444	325	Trevlin Holdings	325	—	4.3	1.3	18.5
20	17	Uniclock Holdings	30	—	1.3	4.3	14.8
104	28	W. S. Yates	28	—	17.4	7.7	11.0

Prices and details of services now available on Prestel, page 45146

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Abu Dhabi Investment Company	Credito Italiano	Merck, Fleck & Co.
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Arab International Limited	Dahs Europe Limited	S. Meier, Bond, & Co.
Arab Banking Corporation - Duss & Co. GmbH	Delbrück & Co.	Mitsubishi Finance International Limited
Arabian General Investment Corporation	Den Danske Bank	Sarcel Mortgage & Co. Limited
Julius Baer International Limited	Den Norske Creditbank	Morgan Grenfell & Co. Limited
Banco Commerciale Italiana	Deutsche Bank Aktiengesellschaft	Morgan Guaranty Ltd
Banco del Oltorale	Deutsche Girozentrale - Deutsche Kommunalbank - AG Bonn	Morgan Stanley International
Banco di Roma	Deutsche Girozentrale - Deutsche Kommunalbank - AG Bonn	National Bank of Abu Dhabi
BancoAmerica Capital Markets Group	Deutsche Girozentrale - Deutsche Kommunalbank - AG Bonn	Neubert, Thomson Limited
Bankers Trust International Limited	Dresdner Bank Aktiengesellschaft	The Nippon Securities Co. (Europe) Ltd.
Bank für Gemeinwirtschaft Aktiengesellschaft	DZB Bank Deutsche Girozentrale- und Landesbankbank Aktiengesellschaft	Nippon Credit International (SIC) Ltd.
Bank Gutzwiller, Kurz, Buegener (Oversee) Limited	Erfstebank-Warburg Aktiengesellschaft	Nomura International Limited
Bank Leu International Ltd.	Erstliche Securities Shandianville Bank Ltd	Norddeutsche Landesbank Girozentrale
Bank Mees & Hoge NV	Euroimobili S.A.	Oesterreichische Landesbank Aktiengesellschaft
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Bankus Française du Commerce Extérieur	Generale Bank	Sal. Oettermann & Co. AG
Bankus Générale du Luxembourg S.A.	Girozentrale und Bank der Schweizerischen Sparkassen Aktiengesellschaft	Sal. Oettermann & Co. AG
Bankus Indosuez	Goldman Sachs International Corp.	Sal. Oettermann & Co. AG
Bankus Internationale à Luxembourg S.A.	Hambros Bank Limited	Sal. Oettermann & Co. AG
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Bankus Paribas Capital Markets	Handelsbank Aktiengesellschaft	Sal. Oettermann & Co. AG
Bankus de Plünion Européenne	Hannische Landesbank - Girozentrale -	Sal. Oettermann & Co. AG
Bankus Worms	Hilf Samuel & Co. Limited	Sal. Oettermann & Co. AG
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Bayerische Landesbank Girozentrale	Kasseler-Ostsee-Bank	Sal. Oettermann & Co. AG
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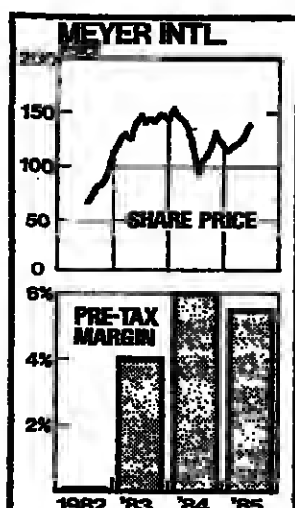


## UK COMPANY NEWS

### Dull outlook for Meyer after £2m profit fall

THE SECOND half of the 1984-85 year at Meyer International, timber and building materials concern, did not come up to expectations, and the company witnessed a profit downturn of £2.4m over the year.

At midday Mr Ronald Groves, the chairman, said that the full year result would be somewhat similar to that for 1983-84, but yesterday he reported profits down to £20.32m, against £22.74m. He said that with housebuilding and repair forecast at a lower level for the current year, the outlook for 1985-86 does not look exciting.



He gave several reasons for the poor second-half performance. There was a falling off in the level of activity in the construction industry in the last quarter of 1984, and the final period of the financial year was affected not only by the weather but also by increases in interest and mortgage rates, and violent changes in currency rates.

In view of all this, he still considered that the results were satisfactory, and the markets seemed to agree yesterday, leaving the shares unchanged on the day at 145p. Despite the downturn, the dividend is lifted by 0.5p to 5.5p with a final of 3.45p (3.1p).

Turnover slipped from £549.52m to £545.52m for the year, with the second half down by £5.3m to £264.77m. After a lower tax charge of £10.62m (£14.18m) net profits were up from £18.56m to £19.7m, or from 19.25p to 20.44p per share.

overdone in the case of Meyer International — although the difficulty of forecasting results at a company so dependent on the movement of the Swedish krona and the dollar against sterling is real enough. The outlook has been better than expected although it took reduced contributions to the pension fund to balance out stock write-downs of £2m and the clearing back of as much tax relief as was available to boost the after-tax income. However, a key factor lending support to the share price at 145p has to be bid rumours. The aggressive Australian company Adstream took an almost 5 per cent stake in late May and has so far refused to indicate its intentions. Closer to home there has been speculation that a bid might come from Hanson, although no identifiable share stake appears to have been garnered by that group. All of which has proved useful for a company making the transition from highly cyclical bulk timber trading to merchandising for the jobbing builders market. With just under half of UK profits now coming from merchant arm Jewsons and most of the start up costs of the chain behind it the prospects have to look good once housing starts to pick up. For this year the analysts are pinning for a small rise to £31m pre-tax which has the shares trading on a prospective multiple of 7 (35 per cent tax), which seems well up with events even if this route was a circuitous one.

comment  
Pessimism seems to have been

### Berkeley Group beats forecast

IN ITS first year on the USM the Berkeley Group has raised its profits before tax by £702,000 to £2.23m.

At the time of the £3.3m rights issue in March the directors had forecast profits of not less than £2.15m. Shareholders are to receive the promised final dividend of 2.4p for a total of 3.6p net per 25p share.

The group, a specialist house-builder based at Weybridge, Surrey, is continuing to enjoy a

good market despite the period of increased interest rates subsequent to the interim report last December.

For the full year to April 30, 1985 turnover surged from £10.16m to £19.16m. Operating profits improved by £947,000 to £2.71m with the residential building activities doubling their contribution from £1.23m to £2.47m. The commercial side showed a downturn of some £300,000 to £239,000.

Interest charges accounted for £478,000 (£233,000) and tax for £1.01m (£701,000).

Attributable profits emerged at £1.22m, against a forecast of £825,000, and earnings per share rose from an adjusted 10p to 12.8p.

The group, formed some eight years ago by Mr Jim Farrer, the chairman, and Mr Tony Fiddley, the managing director, builds high quality properties principally in prime locations in the south-east of England.

### Purchases boost Erskine House

Erskine House, which has been active on the acquisition front, yesterday reported a 68 per cent increase in full year taxable profits from a restated £1.09m to £1.83m.

The office equipment sales and servicing division acquired six companies during the year to March 31, 1985 and substantially increased its profits contribution, says Mr Brian McGilivray, the chairman.

In contrast, however, the security and fire protection side has been completely reshaped with PFR Alarms being sold in March which was followed last month by the sale of the remaining PFR Security business. The businesses disposed of incurred a loss in 1984/85 of £10,000.

Overall group turnover was £6.2m higher at £21.31m and the company expects the current year to be another one of substantial progress. Earnings per share for 1984/85 improved from 5.4p to 7.9p, and the total dividend is being raised to 2.5p, against 1.5p, by a final payment of 1.0p.

comment  
Shareholders who stuck through the lean years of Erskine have finally been rewarded under the acquisitive hands of Brian McGilivray.

### All-round growth lifts GEI to £4.3m

WITH THE help of a 68 per cent growth in exports, GEI International achieved record turnover in the year to the end of March 1985. Exports now account for more than 20 per cent of UK sales.

Turnover rose from £32.37m to £71.72m, with pre-tax profits advancing by 38 per cent to £4.27m (£3.1m).

Mr Thomas Kenny, the chairman, says that all divisions were profitable and improved their results. He is optimistic for the present year.

A highlight of the year was the performance by Sanderson Kayser, the special steels subsidiary which earned record trading profits, and the chairman adds: "Our other steel company, Hemmings, must be the envy of many in a difficult environment."

Auto Wrappers (Norwich), in the packaging machinery division, returned record sales and profits and Europeak achieved a major increase in profits.

The group intends to enlarge its interests in this area. As part of this plan the chairman says the company is engaged in talks with two companies, one of which is overseas.

Losses were still being made at Cox-Denholm, the Edinburgh-based manufacturer of baking ovens and associated equipment. Mr Kenny says that the losses, which are not quantified, have been reduced, but "it is not a respectable member of the GEI family until it earns profits."

Sales for each employee rose from £26,000 to £30,000, the numbers employed remaining the same throughout the year.

In the last wage round demands were settled at about 5 per cent and Mr Kenny says that if greater demands are made without increased productivity "we will reduce the labour force and accept no blame for increased unemployment."

With tax up £1.69m (£1.06m), net profits were £2.35m (£2.06m). Earnings per 20p share were 12p pre-tax, up from the previous year's 8.7p and after-tax were 7.3p (5.5p).

A final dividend payment of 3.81p is being recommended, an increase of 10 per cent on last year's 3.50p. The total is 5.55p (5.32p).

comment  
Investors have to take a lot on trust with GEI International, which is not the most forthcoming of companies in explaining its performance. Nevertheless, those who have backed the group have done well over the past year with shares climbing from a low of 62p to a 114p high before slipping back to 110p, down 2p yesterday.

The group's advance is broadly based, with the steel companies winning new customers to compensate for a lack of National Coal Board orders last year, and the packaging businesses buoyed by the April 1983 acquisition of Metramatic in the U.S. The current advance is broadly based, with sales to the NCB returning to the steel order book. Pre-tax profits of £4.75m look possible, putting the shares of an multiple of nearly 15. At this level, the shares are well up with events and would indeed look expensive but for the 7.5 per cent yield.

### Dowding & Mills

Terms have been agreed for Dowding & Mills to acquire a majority interest in Gela Holdings NV, a private group of companies based in the Netherlands, for a total consideration of £1.2m, or approximately £468,555.

The consideration is to be satisfied by the issue of 689,051 new ordinary shares, to be placed with institutions. Dowding will acquire an 80 per cent interest in Gela, and immediately following the acquisition there will be a rights issue in Gela for which Dowding intends to subscribe for its entitlement at a cost of £1.2m (£272,944).

### Corning ahead

Almost doubled pre-tax profits of £5.13m were achieved in the year to December 2, 1984, at Corning, compared with £2.93m. Turnover for this Sunderland-based glass manufacturer was ahead at £57.34m against £50.72m, generating an operating profit up from £3.56m to £5.52m.

Interest payable was lower at £213,000 (£285,000), and there were losses of £185,000 (£234,000), from a partnership venture.

Tax took £179,000 (£32,000). The company's ultimate holding is Corning Glass Works of the U.S.

### BOARD MEETINGS

TODAY	FUTURE DATES
Intertrust Anglo Television, Arbutnot Japan Growth Fund, Arbutnot Sterling Fund, Arbutnot Van and Fund, Robert Horne, Im Leisure, Kewling Motor, Arthur Lee, Lookers, Scottish American Investment.	Intertrust: ASEA AB ..... Aug 12 Assoc. Newspapers ..... July 9 Daily Mail and General Trust ..... July 9 First Leisure ..... July 11 Whitway Weston ..... June 27
Finist: Blisich Tn, British Telecom, C.H. Industrial, Godfrey Davis, Headlam Sim and Coggins, London and Associated Investment Trust, Mountview Estates, Northern Foods, Oxford Instruments, Powell Duffryn, John Waddington.	Finist: Allied Colloids ..... June 27 The International Fur ..... June 25 Barton Group ..... June 24 Braithwaite Engineers ..... June 26 E.A.R. ..... June 27 Gramplan Television ..... June 27

### IN BRIEF

#### Steinberg down £1m

The six months to end March 1985 saw a further profit decline at Steinberg group, as Marks & Spencer supplier, and the company's pre-tax return fell by £1.07m to £2.04m for the full year. The dividend is held at 1.2p for an unchanged 2.2p total.

The directors identify three major factors in the downturn. There were losses, as anticipated, in the new Hornsea Pottery business; net interest costs increased from £364,000 to £578,000, reflecting the level of debt incurred to fund substantial capital investment; and mistakes were made in the range structure, commitment levels and pricing policy of the group's Alexon merchandise. Management changes have been made and new policies implemented, they say.

Turnover was down from £46.07m to £45.88m, and after a charge of £313,000 (£465,000) for tax earnings per share are shown at 8.81p (14.12p).

THE INVESTMENT COMPANY lifted total profits from £592,190 to £1.27m in the year to March 31, 1985, including £575,573 (£261,626) profits on changes of investments. The dividend is raised from an equivalent 0.66p to 1.05p with a final of 0.613p. Earnings per share are stated at 3.88p (3.17p) on increased capital.

ASSOCIATED ENERGY SERVICES, the building and environmental maintenance services and catering distributor, is set to strengthen a strong second half and hopes to increase the single final dividend. For the opening six months to end-March 1985, turnover of this USM stock moved up from £1.52m to £2.93m and generated higher operating profits of £290,000 against £233,000. Most of the increase was attributable to the maintenance and servicing side. The taxable results, however, was down by £10,000 to £203,000 following an increase in interest charges. Earnings per share were lower at 1.68p (2.16p).

## APPLETREE PLC

(Incorporated under the Companies Acts 1945 to 1981 - No. 1759141)

Share Capital

Authorised

£625,000

in Ordinary shares of 10p each

£525,000

Issued and to be issued fully paid

Appletree PLC ("the Company"), with its subsidiaries, is principally engaged in the pre-packing, distribution and wholesale marketing of home produced and imported vegetables and is one of the leading suppliers in the United Kingdom of quality pre-packed fresh vegetables to major supermarket groups.

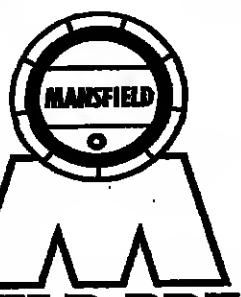
In connection with a Placing of 1,492,000 Ordinary shares of 10p each of the Company at 138p per share, application has been made to the Council of The Stock Exchange for the grant of permission to deal in the whole of the Company's issued Ordinary share capital in the Unlisted Securities Market. It is emphasised that no application has been made for these securities to be admitted to listing.

A proportion of the shares being placed has been offered, and will be available, to the public for application through the Market during Market hours today. Particulars concerning the Company are available in the Exel Unlisted Securities Market Service and copies of the Prospectus may be obtained until 2nd July, 1985 from:

Grieseson, Grant and Co.,  
59 Gresham Street, London EC2P 2DS.

19 June 1985

This advertisement complies with the requirements of the Council of The Stock Exchange and does not constitute an offer of, or invitation to subscribe for or purchase, any securities.



## MANSFIELD BREWERY

PUBLIC LIMITED COMPANY  
(Incorporated in England - Registered Number 203985)

Issue of  
£20 million 11½ per cent. Debenture Stock 2010  
at £99.990 per cent.

In accordance with the requirements of the Council of The Stock Exchange £20 million nominal of the stock is available in the market on 19th June, 1985.

Listing particulars are available in the Exel Statistical Services and copies are available until 3rd July, 1985 from:

Samuel Montagu & Co. Limited  
114 Old Broad Street  
London EC2P 2HY

W. Greenwell & Co.  
Bow Bells House  
Broad Street  
London EC4M 9EL

Quilter Goodison & Co.  
Garrard House  
31-45 Gresham Street  
London EC2V 7LH

and at the registered office of Mansfield Brewery Public Limited Company at Littleworth, Mansfield, Nottinghamshire NG18 1AB. Copies are also available from the Company Announcements Office, The Stock Exchange, London EC2P 2BT until 21st June, 1985.

19th June, 1985



Malayan Banking  
Berhad

US \$60,000,000

Negotiable Floating Rate Dollar  
Certificates of Deposit due 1987 Tranche A

In accordance with the provisions of the Certificates, notice is hereby given that the rate of interest for the period from 19th June 1985 to 19th September 1985 has been established at 7½ per cent per annum. The interest payment date will be 19th September 1985. Payment which will amount to US \$4,991.32 per Certificate, will be made against the relative Certificate.

Agent Bank  
Bank of America International Limited

## Rowe Evans INVESTMENTS PLC

The annual general meeting of the Company will be held on 12th July, 1985. The following is a summary of the results and of the comments made by Mr. E. Hadsley-Chaplin, Chairman and Managing Director in his circulated statement for the year ended 31st December, 1984.

Results in brief	Year ended 31st December
	1984 1983
	£'000 £'000
Profit before tax	3,888 1,979
Profit after tax and minority	1,765 901
Net increase in liquid funds	1,072 163
Dividend per share	2.25p 1.35p
Earnings per share	6.05p 3.32p

"Profits after tax are about 80% higher than in the previous year. A number of factors have contributed towards these very welcome results, the largest one being from our Pangkalan Estate in North Sumatra which made £1.6 million before tax. The contribution from our Indonesian related company owning Kerasan Estate, P.T.P.P. Laras, in which we have a 40% stake, was proportionately as great. The main reason was the high yields obtained from our oil palm areas which were boosted by the effect of weevil pollination, good climatic conditions and that generally speaking our palms were in a high yielding cycle.

We also received a major contribution towards profitability from our Sungai Krui Estate in Malaysia. Profits from our various Malaysian related companies were all at reasonable levels.

We continued to make progress with planting our existing 1,100 hectares of Simpan Kiri Estate and we are in the process of installing temporary milling facilities to deal with our initial crop of I.L.B.

As a result of the record profits we have been able to reduce our bank borrowings considerably and place considerable sums to reserves which will provide for further expenditure at Simpan Kiri, I am not going to make a forecast for 1985 but as we are now on a firm financial footing I am reasonably confident that we will be able to maintain the increased dividend."

E. Hadsley-Chaplin, Chairman

Copies of the Report and Financial Statements may be obtained from The Secretaries, H. P. Edwards & Services Limited, Tube Hill House, London Road, Sevenoaks, Kent TN13 1DG.

## New AXIA Holding Corporation

has sold

### Faultless Caster Corporation

and its wholly-owned subsidiary

### Faultless-Doerner Manufacturing Inc.

(a Canadian corporation)

## Babcock International, Inc.

We initiated this transaction, assisted in the negotiations and acted as financial advisor to New AXIA Holding Corporation.

## Merrill Lynch Capital Markets

June 1985



## Hanover Investments (Holdings) p.l.c.

### Estate Agencies, Financial and Property Services

Results for year ended 28 February

	1985	1984
	£'000	£'000
Trading profit (before tax and exceptional items)	703	510
Earnings per share	9p	7.1p
Assets per share	82p	64p
Dividends per share	3p	2p

Druce & Co., Spencers, Alexander Stevens Druce & Co., Ronald Preston & Partners, F. S. Daniel & Son.

We are well placed to make further progress this year. WE INVITE FIRMS WISHING TO MAKE SIMILAR PROGRESS TO JOIN OUR EXPANDING GROUP.

Copies of the report and accounts can be obtained from the Secretary, 21 Manchester Square, London W1A 2DD.

### BUSINESS OPPORTUNITIES IN THE USA

#### REWARDS, RISKS AND CHOICES

A seminar presented by:

Commercial Consultants Int. Inc.

You are invited to attend this educational seminar to learn of the opportunities and strategies for the purchase of U.S. business enterprises.

Topics to be covered include:

1. The dynamic characteristics of the U.S. market
2. Legal idiosyncrasies of foreign investment
3. Immigration and visa considerations
4. Tax and pre-investment planning
5. Analysis of a typical business
6. Advantages of buyers agency

These and related topics will be covered and the opportunity for 1 hour of private consultation.

Seminar on June 29th, with consultation on 30th, at the Cumberland Hotel, Marble Arch, London.

The seminar includes: literature, lunch and private consultations. Registration must be received by June 26th, 1985.

Please contact for information:

Commercial Consultants Int. Inc.

c/o Mr Len Brammer

17 Monmouth Street, Monmouth, Gwent NP23 2EF

Tel: 0600 3991 Telex: 499999 SEELIX G



Copies of this document, which comprises listing particulars with regard to Kalon Group PLC required by The Stock Exchange (Listing) Regulations 1984, have been delivered for registration to the Registrar of Companies in England and Wales as required by those Regulations. Application has been made to the Council of The Stock Exchange for the whole of the share capital of Kalon Group PLC, issued and to be issued, to be admitted to the Official List.

The Directors of the Company, whose names are set out in the section entitled "Directors, management and employees", are the persons responsible for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

The merger is conditional upon the placing described herein. This document assumes that the merger has been effected.

# Listing of Kalon Group PLC

(previously Leyland Paint & Wallpaper p.l.c.)

following the merger  
of Kalon Limited and  
Leyland Paint & Wallpaper p.l.c.

and the placing of 10,000,000 Ordinary shares of 15p each

by

S. G. Warburg & Co. Ltd. and County Bank Limited

## Directors and advisers

### Directors

Leslie Howard Silver, OBE, Chairman  
James Bruce McDonald, Deputy Chairman  
Oded Brosh  
James Stephens Huntley  
Donald William Komrower, BA(Hons.), ATII  
George Edward Moore, FCA  
Mark Simon Silver  
Eric Smith, FTSC  
Gervase Alan Thomas, MA, FCA (Non-executive)

all of Huddersfield Road, Birstall, Batley, West Yorkshire WF17 9XA

### Secretary and registered office

William Gordon Midgley  
Huddersfield Road, Birstall, Batley, West Yorkshire WF17 9XA

### Auditors to Kalon and joint reporting accountants

Robson Rhodes, Chartered Accountants,  
186 City Road, London EC1V 2NU and  
St. George House, 40 Great George Street, Leeds LS1 3DQ

### Auditors to Leyland and joint reporting accountants

Peat, Marwick, Mitchell & Co., Chartered Accountants,  
Unicentre, Lords Walk, Preston PR1 1LQ

### Stockbrokers

Cazenove & Co.,  
12 Tokenhouse Yard, London EC2R 7AN  
Williams de Broe Hill Chaplin & Company Limited,  
Pinner Hall, Austin Friars, London EC2P 2HS

### Solicitors

Ashurst, Morris, Crisp & Co.,  
Broadgate House, 7 Eldon Street, London EC2M 7HD  
Norton, Rose, Botterell & Roche,  
Kempson House, Camomile Street, London EC3A 7AN

### Principal bankers

Lloyds Bank Plc,  
6-7 Park Row, Leeds LS1 1NX

### Registrars and transfer office

National Westminster Bank PLC,  
Registrars Department, P.O. Box 82, 37 Broad Street, Bristol BS99 7NH

## Summary of information

The following information is derived from and should be read in conjunction with the full text of this document:—

### Business

Kalon Group, which has been formed from the merger of Kalon and Leyland, is a substantial independent British paint, surface coating and chemical products group with an annual turnover of some £70 million and employing over 1,400 people.

The Group has two main operating divisions. The Decorative Division sells a wide range of decorative paint, wallcoverings and decorating sundries to the retail and trade markets both in the United Kingdom and overseas. In recent years, the Group's growth has been achieved through the development of sales to DIY superstores and supermarket chains and to the trade through its national network of trade centres. The Industrial Division is a major supplier of polymers to the coating industry, manufactures paint and surface coatings for industrial applications and supplies cleaning, maintenance and protective chemicals.

### Prospects

The Directors believe that the separate trading strengths of Kalon and Leyland, combined with the financial, technical and managerial resources of the Group, provide potential for growth which should be significantly enhanced by opportunities for synergy. The Directors believe that the merger will benefit shareholders, employees and customers of the Group and will provide a more prosperous future than would otherwise have been available to either company.

### Trading record of the Group

The following table summarises the pre-forma turnover and profit before taxation of the Group by aggregating the results of Kalon and the continuing operations of Leyland throughout the relevant periods. It should be noted that the table takes no account of the benefits which are expected to flow from the merger, nor does it reflect the results which might have been achieved had the two companies been merged for the full five years:—

Year ended 31st December	Turnover £000	Profit before taxation £000
1980	32,623	2,395
1981	44,763	2,081
1982	55,315	1,523
1983	65,006	2,755
1984	69,258	2,512

### Financial statistics

Placing price per Ordinary share 30p  
Number of Ordinary shares in issue 116,969,423  
Market capitalisation at the placing price £35 million

Forecast special dividend per Ordinary share in respect of the year ending 31st December, 1985 0.8p

Indicated gross dividend yield at the placing price 5.7 per cent.

Pro-forma net tangible assets per Ordinary share as at 31st December, 1984 16.2p

\*The indicated gross dividend yield is calculated on the basis that the forecast special dividend of 0.8p represents two-thirds of a notional full year dividend of 1.2p.

## Share capital

Authorised	Issued and fully paid
£23,250,000.00	£17,545,413.45

All the 116,969,423 Ordinary shares in issue rank in full for all dividends and other distributions hereafter declared, paid or made on the Ordinary share capital of the Company.

## Indebtedness

At the close of business on 17th May, 1985 Kalon and Leyland had in aggregate outstanding secured bank overdrafts of £8,587,000, a debenture of £65,000, hire-purchase commitments of £1,189,000 and bills discounted of £252,000. Save as aforesaid, and apart from intra-group liabilities, at that date neither Kalon nor Leyland nor any of their subsidiaries had any loan capital (including term loans) outstanding or created but unused, nor any mortgages or charges, nor any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire-purchase commitments, or guarantees or other material contingent liabilities.

The above does not take account of the net proceeds received on 22nd May, 1985 of £554,070 in respect of the disposal of Leyland's investment in William Morris Fine Arts Public Limited Company. Details of the investment are set out in note 6(xi) of Part V.

## Definitions

In this document, unless the context otherwise requires, the following expressions shall bear the following meanings:—

'the Company'	Kalon Group PLC (formerly Leyland Paint & Wallpaper p.l.c.)
'Kalon Group' or 'the Group'	the Company and its subsidiaries
'Kalon'	Kalon Limited
'Leyland'	Leyland Paint & Wallpaper p.l.c. prior to the merger
'the Directors'	the Directors of the Company following the merger
'Ordinary shares'	Ordinary shares of 15p each in the Company
'the placing'	the placing of Ordinary shares described in this document
'Warburgs'	S. G. Warburg & Co. Ltd.
'County Bank'	County Bank Limited

## PART II

### Introduction

On 4th April, 1985 it was announced that agreement had been reached in principle for the merger of Kalon and Leyland with the aim of establishing a substantial independent British paint, surface coating and chemical products group. On 17th June, 1985, the merger, which involves the issue by Leyland of 91.5 million Ordinary shares to acquire Kalon, was approved by the shareholders of Leyland. As part of the merger arrangements, 10,000,000 Ordinary shares have been placed in the market on behalf of Mr. Leslie Silver at a price of 30p. At this price Kalon Group has a market capitalisation of £35 million.

Kalon Group combines two major United Kingdom paint companies which, while having similar technological backgrounds, serve largely different sectors of the paint market. The Group intends to maintain their separate identities and to support their existing brands and customers to the full, while improving service, marketing and purchasing to the benefit of customers, shareholders and employees.

### History

#### Kalon

Kalon was formed in 1947 as Silver Paint and Lacquer Company Limited by the present chairman, Mr. Leslie Silver, and was renamed Kalon Limited in 1982. It began as a paint wholesaler but soon started to manufacture its own products. Initially, the principal products were various coatings for industrial applications, but in the late 1950s Kalon started producing emulsion paints and other decorators' products.

In the late 1960s the company developed its own brand of paint, "Home Charm", which was launched through a supermarket chain based in Leeds. The company recognised the changing pattern of paint retailing involving a movement away from traditional paint outlets, such as ironmongers and hardware shops, to the supermarket chains and emerging multiple DIY superstores. Kalon's successful response to this change was one of the cornerstones of its development.

Over the last ten years the company has increased its share of the UK decorative paint market, principally by expanding sales of paint to large DIY retailers under the customer's 'own label'. Kalon has become the largest 'own label' paint manufacturer in the UK. In 1979 the company received the Queen's Award for exports.

Since the early 1970s Kalon has expanded its activities by a combination of internally generated growth and acquisition. Smyth-Morris (Chemicals) Limited was established in 1971 to manufacture maintenance and cleaning chemicals. Kirklees Chemicals Limited was formed in 1974 to produce polymers and in 1975 Investors in Industry plc provided a loan of £375,000 to enable Kalon to finance the installation of new plant and to modify the buildings at Kirklees Chemicals. Leeds Paint Manufacturing Company Limited, a well established local paint manufacturing company selling to more traditional trade and decorative retail outlets, and The New Victoria Wallpaper Company Limited, producing 'own label' embossed wallpaper, were acquired in 1977 and 1981 respectively.

In 1981 the company purchased for cash the Bestobell Paint and Chemical Company Limited ("Bestobell Paint") from Bestobell plc. Bestobell Paint's principal brand names are Carsons and Hadfields, although it also has some major 'own label' customers and an established industrial coating business under the Hadfields name. Its principal market is the South of England, complementing Kalon's traditional strength in the North of England. Bestobell Paint's chemical division (now the Penetone and Horgen divisions) based in Cramlington, near Newcastle-upon-Tyne, makes and distributes a range of cleaning and maintenance chemicals.

During the last 5 years Kalon has successfully implemented a £13 million investment programme to support its growth. In 1983, as part of this programme, Kalon purchased a 50 acre site at Birstall, near Leeds, and has established a modern, automated factory, a warehouse and its head office on the site. The factory, which is amongst the most modern paint manufacturing facilities in Europe, was commissioned in February 1985 and is now fully operational.

#### Leyland

Leyland was founded in 1922 as Leyland Paint & Varnish Company Limited primarily to manufacture and sell water based paint under the trade mark "Leytex", but it rapidly expanded into the production of a wide range of oil paints for decorative purposes. From the outset it has produced a high-quality product aimed at the discerning tradesman and quality market and, in parallel, developed a wallpaper distribution business.

Leyland obtained a stock market quotation in 1956 and in 1971 changed its name to Leyland Paint & Wallpaper Limited. Between 1959 and 1980 Leyland continued to expand, largely by acquisitions. These included Paragon Wallpapers Limited, which provided Leyland with a wallpaper production capability; Regency Paints Limited, a wholesale and retail wallpaper and paint organisation in Scotland; and Blaskys (Wallpapers) Limited, which provided 35 additional retail outlets. In 1972 Leyland acquired John Matthews & Co. Limited, manufacturers of the "Jellipek" brand, and its chain of 23 specialist shops. By 1980 the number of trade and retail outlets had been increased by further small acquisitions to 130, including 27 trade centres.

Between 1980 and 1982 falling volume and rising costs caused Leyland's profits to deteriorate and substantial losses were incurred in 1982 and 1983. In 1983 major steps were taken to reconstruct the company, including the disposal or closure of the retail shops, and a major cost reduction and rationalisation programme was implemented. In the same year a new board under the chairmanship of Mr. Gervase Thomas was established and subsequently Mr. James McDonald joined the company as managing director. Hambro Bank Limited and other institutions, led by York Trust Limited, subscribed £1.7 million of new equity in April 1984. On 17th December, 1984 the sale of Leyland's wallcovering interests to William Morris Fine Arts Public Limited Company and the disposal of its shares in Berkley Wallcoverings Inc. to Canadian investors were finalised, realising approximately £5 million.

By the end of July 1985, Leyland will have completed a substantial investment programme to install up-to-date methods of paint manufacture and of process control at its factory in Leyland. In addition it is continuing to develop its trade centre network which currently comprises 80 of its own units and a growing number of franchised units.



## Business

## Summary

The Group has two main operating divisions:—

- (1) the Decorative Division, which manufactures, processes and markets gloss and emulsion paints under well known brand names together with customers' 'own label' paints, and embossed wallpapers under the New Victoria Wallpaper name; and
- (2) the Industrial Division, which is a major supplier of polymers to the coating industry, manufactures paint and surface coatings for industrial applications and supplies cleaning, maintenance and protective chemicals.

In the year ended 31st December, 1984, approximately 85 per cent. of Kalon Group's sales were in the United Kingdom. An analysis of turnover by division is set out below:—

	United Kingdom £000	Exports £000	Total £000
The Decorative Division			
— Kalon	31,448	3,762	35,210
— Leyland	15,692	2,204	17,896
	47,140	5,966	53,106
The Industrial Division, net of intra-group sales	14,011	4,141	18,152
	59,151	10,107	69,258

No single customer accounts for more than 10 per cent. of the Group's sales.

## The Decorative Division

## Competitors, products and customers

The UK decorative paint market is supplied principally by UK based manufacturers. There are some 200 decorative paint manufacturers in the UK, of which the largest are ICI, Crown and Berger. The majority of decorative paint is sold under the manufacturers' own brand names, such as ICI's "Dulux", although increasing paint is being sold under customers' 'own label'. The decorative paint activities of the major manufacturers generally form only a part of the activities of their respective groups. Kalon, Blundell Petroglaze and Johnstones Paints are the only publicly quoted companies whose primary business is the manufacture of decorative paint.

## Kalon

The principal products of Kalon's decorative division are emulsion and gloss paint which represent approximately 85 per cent. of the division's sales. The remainder comprises wallpaper and decorating sundries.

The mix of Kalon's sales has reflected the increasing importance of the DIY superstores in the 'own label' retail paint market. Kalon's modern manufacturing facilities enable it to provide the service and support required by such customers.

Kalon's own brands, the most popular of which are "HomeCharm", "Carsons", "Carsons Colouriser" and "Doloria", are sold in supermarkets and independent retailers. The "Hadfields" brand is sold exclusively to the trade and local authorities.

Export sales are primarily to wholesalers and retailers in the Middle East, especially Saudi Arabia and Oman.

## Leyland

Leyland's principal products are its high quality "Leyland" brand emulsion and gloss paints. The main range is supported by an extensive range of specialist paints, other brands such as "Jellipex" and sales of wallpaper and decorating sundries. Through its growing network of trade centres, which offer a highly efficient and local service to customers, Leyland sells extensively to independent retailers and trade customers, from the small decorator to the large contractor and local authorities.

In 1984 approximately half of the UK sales of "Leyland" paint were through independent retailers while, in the trade market, Leyland is able to offer a comprehensive service to the tradesman through its chain of trade centres and remains one of the largest independent distributors of wallcoverings in the UK.

## Marketing, selling and distribution

## Kalon

Kalon's promotional and advertising expenditure is relatively low, being principally expenditure on point of sale displays, new colour cards and brochures. Kalon considers that it benefits from the extensive advertising of paint as a product by the brand leaders but does, however, rely on its 'own label' customers to market their products and from time to time supports these customers' own advertising campaigns.

Kalon's sales representatives visit each customer's store on a regular basis, providing each outlet with both an in-store display and a stock replenishment service. This service, supported by effective national distribution, which provides regular and reliable delivery, is a key feature of Kalon's expanding sales. Kalon's distribution is mainly carried out by its own transport division which serves both the Decorative and Industrial Divisions.

An export sales team regularly visits customers and agents abroad, and export sales are made primarily through locally appointed agents.

## Leyland

Leyland has a national sales force of some 50 salesmen and managers who are supported by selective marketing and media coverage. Leyland's sales office provides immediate product availability information and a wide range of technical and colour advisory services, including complete technical specifications and the provision of colour schemes. Leyland's growing number of owned and franchised trade centres, which are situated in most of the important conurbations in the UK provide all customers with local contact and support. Leyland distributes from its central warehouse to its trade centres, which then provide a collection and delivery service to customers in their area.

Leyland exports approximately 15 per cent. of its products mainly to Middle Eastern markets, where customers are visited regularly by Leyland's own export sales staff.

## Production

## Kalon

Kalon's paint production facilities include its modern factory in Birstall, which was commissioned in February 1985; it also has factories at Morley and Mitcham. In the new Birstall plant, the production process is automated and all powder and liquid handling is computer controlled. The plant has been designed specifically to provide the necessary production capacity for Kalon's current operating level, whilst providing the flexibility to meet significant additional demand by increasing capacity at minimal extra cost.

## Leyland

Production of Leyland's paint range takes place at its factory at Leyland, which is currently undergoing modernisation and has been designed to provide the efficient and flexible production base necessary to support a complete range of products, colours and specifications for both trade and retail customers.

## The Industrial Division

The Industrial Division has three main activities:—

## Emulsion polymers

Kirklees Chemicals manufactures polymers, primarily for use in the manufacture of emulsion paint. These products form up to 35 per cent. of the material content of emulsion paint. Kirklees currently supplies 80 per cent. of Kalon's requirements for emulsion resin and some 27 per cent. of its sales are exported to the EEC and the Middle East. It is concentrating on increasing its sales in the expanding market in the adhesives and building products industries worldwide.

## Chemicals for industrial applications

Smyth-Morris Chemicals (including Smyth-Morris S.A. in Spain), Penetone and Horgen produce and distribute a range of degreasers, soaps and chlorinated solvents for a variety of industrial cleaning applications, especially in the engineering, electrical and electronics industries. It is one of the three main distributors in the UK of 111 trichlorethane and methylene chloride for the Dow Chemical Company of America.

## Industrial coatings

Hadfields Industrial Coatings, based principally in Mitcham, Surrey, manufactures and supplies a range of industrial paints and coatings to various industries; the extensive product range includes vehicle refinishing systems, electrical insulating varnishes, thinners, primers and undercoats. It is the UK member of "The Nova Paint Club" and thereby participates in the exchange of surface coatings technology with eight overseas manufacturers. A joint venture, SFD (Great Britain) Limited, is being established with Société Française Duco, a leading French manufacturer of vehicle refinishing systems to promote jointly a range of car refinishing products, which are sold through distributors.

The above activities are supported by sales and manufacturing facilities which are separate from those of the Decorative Division.

## Research and development

Whilst retaining their separate identities, close co-operation between the two research and development departments will provide the Group with a strengthened technical base. Both departments concentrate mainly on quality control and the development of improved product formulations with the prime intention of achieving a more effective production process, whilst maintaining product quality and performance.

Kalon has developed, and continues to develop, several new products, including solid matt emulsion, smooth stone paint and a new range of wood preservative products. Leyland has recently developed a microporous water based gloss paint known as Leyland 2000, launched in March 1985 and a 'user friendly' water based wood preservative.

The Industrial Division has recently developed and launched a number of new products including the 2400 Series high-binding polymer and "Citriclean", a bio-degradable degreaser.

## Directors, management and employees

## Directors of the Company

Leslie Howard Silver, OBE, aged 60, is Chairman and Chief Executive. He founded Kalon in 1947 and has been largely responsible for its subsequent growth and development. He is a past President of the Paintmakers Association and other trade bodies and is currently a member of the Yorkshire, Humberside and East Midlands Regional Industrial Development Board, a non-executive director of Shaw Carpets plc and Chairman of Leeds United Football Club Limited.

James Bruce McDonald, aged 40, is Deputy Chairman and an executive director. After qualifying as a barrister, he has had wide managerial experience in the building materials and engineering industries with Redland plc and Johnson & Firth Brown plc and a period of four years with a US management consultancy company. He joined Leyland as Managing Director in November 1983.

Oded Brosh, aged 38, is Operations Director with responsibility for purchasing and operations including warehousing, transportation and distribution. He is a son-in-law of Leslie Silver and joined Kalon in 1977 following a career in transport and shipping. He was appointed a Director of Kalon in 1981.

James Stephens Huxley, aged 54, is Chief Executive of the Decorative Division. He joined Kalon as a Director in 1982 having previously been sales director of the resin division of Cray Valley Products Limited, a subsidiary of Coates Brothers PLC.

Donald William Komrower, BA(Hons), ATT, aged 36, is Chief Executive of the Industrial Division. He is a son-in-law of Leslie Silver and joined Kalon in 1974 having previously worked in the textile industry. He was appointed a Director of Kalon in 1978.

George Edward Moore, FCA, aged 48, is Finance Director with overall responsibility for finance, computing and general administration. He joined Kalon as a Director in 1977 following a career in finance, industrial engineering, operational research and management consultancy with Pilkington Brothers plc, The Plenary Co. plc and Robson Morrow.

Mark Simon Silver, aged 25, is the Director responsible for Hadfields Paints within the Decorative Division. He is the son of Leslie Silver and joined Kalon in 1977 as a trainee. He was appointed a Director in 1984.

Eric Smith, FTSC, aged 42, is the Technical Director with responsibility for quality control and research and development in the Decorative Division. He has been with Kalon for 26 years and was appointed a Director of Kalon in 1971.

Gervase Alan Thomas, MA, FCA, aged 55, is a non-executive Director of the Group. Prior to the merger he was Chairman of Leyland, a position which he assumed in June 1983, having joined Leyland as a non-executive Director in 1982. He is also a Director of York Trust Holdings Limited and Park Place Investments p.l.c.

Certain of the executive directors of Kalon Group have service agreements, details of which are set out in paragraph 4 of Part VI.

## Company Secretary

William Gordon Midgley, aged 64, is Company Secretary. He joined Leeds Paint Manufacturing Company Limited in 1971 and, following its acquisition by Kalon in 1977, was appointed Company Secretary of Kalon.

## Management

The Board is supported by a professional team of senior executives, drawn from Kalon and Leyland, with a wide range of experience in the industry who are responsible for the management of the operating companies and essential group services. This team, assisted by the efforts and loyalty of all the Group's employees, provide the basis for the continuing success of the business.

## Employees

The Group has the following number of employees:—

	1980	1981	1982	1983	1984
The Decorative Division	1,063				
The Industrial Division	316				
Finance and administration	98				
	1,477				

The Group has a good relationship with its employees. The Directors consider that the continuing motivation of management and employees is vital for the success of the Group and have therefore recently adopted an executive share option scheme under which it is proposed to issue options as soon as practicable. They are extending the Leyland Savings-Related Share Option Scheme to all employees of the Group to enable them to identify closely with its financial performance and to provide longer-term financial incentives. Kalon operates a profit sharing scheme whereby all employees with over six months' employment may qualify for a share of its profits and the Directors also intend to extend that scheme to all Group employees.

Following the merger, the Group will continue to operate the pension schemes previously operated by the two companies. In due course, these schemes may be combined without loss of benefit to members. Reports received from the funds' actuaries have indicated that each is fully funded on the basis of past service and expected final pensionable salaries at normal retirement date.

## Financial information

## Trading record of the Group

The following table, based on the pro-forma financial information set out in Part III, summarises the results of the Group (under the historical cost convention) for the five years ended 31st December, 1984 by aggregating the results of Kalon and the continuing operations of Leyland throughout the relevant period:—

Year ended 31st December	1980	1981	1982	1983	1984
Turnover	£2,623	£4,763	£5,315	£65,006	£69,258
Profit before interest and taxation	3,143	2,748	2,350	3,604	3,317
Share of profit/(loss) of related companies	—	—	30	(2)	4
Net interest payable	(748)	(667)	(857)	(847)	(809)
Profit before taxation	2,395	2,081	1,523	2,755	2,512
Represented by:					
Kalon	1,194	1,485	1,394	3,302	3,071
Leyland	1,201	596	129	(547)	(559)

It should be noted that this table takes no account of the benefits which are expected to flow from the merger, nor does it reflect the results which might have been achieved had the two companies been merged for the full five years.

Whilst the acquisition of the paint and chemical operations from Bestobell in May 1981 substantially increased Kalon's turnover, the existing businesses have achieved a strong growth record in an industry sector which has seen little growth over the same period. This growth record, particularly in 1983, has been achieved by Kalon's ability to increase its sales to the expanding DIY superstores and national supermarket chains.

The growth of Leyland's turnover between 1980 and 1983 was largely attributable to the growth in paint sales to its chain of retail shops. The reduction in turnover in 1984 reflects the loss of these sales following the disposal of most of its shops.

After absorbing the costs of acquiring and revitalising the paint and chemical operations of Bestobell during 1981 and 1982, Kalon's results in 1983 show the benefits of the growth in turnover achieved both by the acquisition and by increased sales to the large retailers.

Kalon's results for 1984 reflect the exceptional revenue costs and the disruption to the business incurred as a necessary but inevitable consequence of the extensive investment in the group's future through its major new facilities at Birstall.

During the four years to 1983 Leyland suffered a severe decline in its profitability and underwent major reorganisation in 1983 and 1984. This included the sale of most of its retail shops, its wallcovering interests and its shares in Berkley Wallcoverings Inc. together with a substantial reduction in overheads and bank borrowings.

## Net assets

The pro-forma net assets of the Group (under the historical cost convention) as at 31st December, 1984, as shown in Part III, amounted to £19.0 million, representing 16.2p per Ordinary share on the Company's enlarged share capital.

## Dividends

In the absence of unforeseen circumstances, the Directors intend to pay in February 1986 a special interim dividend in lieu of a final dividend of 0.8p per Ordinary share (net of the associated tax credit) in respect of the year ending 31st December, 1985.

The Directors intend in future years to pay an interim dividend in November and to recommend a final dividend for payment in July. It is intended that one-third of the annual dividend would be paid by way of the interim dividend and two-thirds by way of the final dividend.

## Current trading

The volume of Group sales in January and February was disappointing, but there was an encouraging recovery in March which has since been sustained. Although the increases in raw material costs experienced in the latter half of 1984 are continuing, the Group has recently implemented increases in selling prices to reflect this. Profits of the Group will be weighted towards the second half of the year, reflecting the seasonal pattern of paint sales.

Whilst the full benefits of Leyland's continuing recovery and of the commissioning of Kalon's new factory at Birstall have yet to be realised, the Directors believe that the current trading level provides a good base for growth.

## Prospects

Kalon's strong position in the supply of 'own label' paints to DIY superstores, which are assuming an increasingly important position in the decorative paint market, complements Leyland's well-established high-quality brands in the retail and trade markets. In addition, although both companies supply similar export markets, there is very little overlap between Kalon and Leyland in the customers served. The Group intends to use its financial strength to develop its brands and trade centres and to develop and support new products and customers.

In the Industrial Division, the Group is continuing to expand its chemical businesses, particularly by the development of new products, including high-binding polymers, resins for the adhesives market and a variety of chemicals for the industrial cleaning market. The industrial coatings business achieved good growth in 1984 and, despite the depressed level of industrial manufacturing activity, continues to perform well.

The full benefits of Leyland's new facilities at Birstall, commissioned in February, Leyland's major reorganisation completed in January and its factory modernisation to be completed by the end of July are becoming available to the Group progressively during 1985.

The Directors consider that the combination of Kalon and Leyland will provide significant operating advantages in such areas as purchasing power, rationalisation of raw material supplies, flexibility of manufacturing resources and access to each company's distribution system. Further development of product formulae utilising modern technology and the co-ordination of the separate research and development teams should produce manufacturing benefits in addition to new market opportunities.

The Directors believe that the separate trading strengths of Kalon and Leyland, combined with the financial, technical and managerial resources of the Group, provide potential for growth which should be significantly enhanced by opportunities for synergy. The Directors believe that the merger will benefit shareholders, employees and customers of the Group and will provide a more prosperous future than would otherwise have been available to either company.

## PART III

## Pro-forma financial information on the Group

Set out below are pro-forma profit and loss accounts for the five years ended 31st December, 1984, aggregating the results of Kalon and the continuing operations of Leyland throughout the relevant period, and a pro-forma statement of the aggregated net assets at that date. The pro-formas are based on the historical cost accounts in the respective accountants' reports set out in Parts IV and V.

## 1. Pro-forma profit and loss account

	1980	1981	1982	1983	1984
Turnover	£2,623	£4,763	£5,315	£65,006	£69,258
Profit/(loss) before interest and taxation	3,143	2,748	2,350	3,604	3,317
Share of profit/(loss) of related companies	—	—	30	(2)	4
Interest payable	(748)	(667)	(857)	(847)	(809)
Profit/(loss) before taxation	2,395	2,081	1,523	2,755	2,512
Notional taxation (iii)	838	728	523	964	879
Profit after notional taxation	1,557	1,353	999	1,791	1,633
Notional earnings per share (iv)	1.33p	1.16p	0.85p	1.53p	1.40p

## Notes:—

- The above pro-forma summary of the results for the five years to 31st December, 1984 includes:
  - the consolidated profit and loss accounts of Kalon as shown in the accountants' report in Part IV of this document showing the profit on ordinary activities before taxation, adjusted to exclude pre-operational interest costs relating to the major capital development at Birstall of £118,000 in 1983 and £356,000 in 1984;
  - the consolidated profit and loss accounts of Leyland as shown in the accountants' report in Part V of this document showing the profit/(loss) on ordinary activities before taxation of the continuing operations of Leyland, adjusted:
    - to include the costs relating to unused properties which are still owned by Leyland of £189,000 in 1983 and £272,000 in 1984;
    - to remove certain overheads from the stock valuation of Leyland, the consequence of which is to increase the losses by £156,000 in 1983 and £37,000 in 1984;
  - Following an actuarial review of the Leyland pension fund, no employer's contributions have been made since April 1984 and no further employer's contributions are required in respect of existing members until April 1986. The estimated consequential reduction to employer's contributions for the continuing operations of Leyland in 1984 was £134,000.
  - No meaningful corporation tax charge can be computed assuming Kalon and the continuing operations of Leyland had been combined throughout the five year period. Accordingly, for the purpose of the above pro-forma, notional corporation tax at 35 per cent. has been assumed, being the rate of corporation tax applicable from 1st April, 1986.
  - Notional earnings per share have been based on the profit for each year after the notional tax charge and on the 116,969,423 Ordinary shares of 15p each which will be in issue following the merger with Kalon.

## 2. Pro-forma statement of net assets at 31st December, 1984

	Kalon £000	Leyland £000	Total £000
Fixed assets			
Tangible assets	15,070	2,931	18,001
Investments	94	91	185
	15,164	3,022	18,186
Current assets			
Stocks	8,727	2,944	11,671
Investments	11,622	2,489	14,111
Debtors	22	30	52
Cash at bank and in hand	20,371	6,153	26,524
Creditors: Amounts falling due within one year:			
Bank overdraft	6,042	998	7,040
Creditors and accruals	13,121	3,700	16,821
	19,163	4,698	23,861
Net current assets	1,308	1,455	2,763
Total assets less current liabilities	16,372	4,477	20,849
Creditors: Amounts falling due after more than one year	(402)	—	(402)
Provision for liabilities and charges	(1,422)	(29)	(1,451)
	14,548	4,448	18,996
Capital and reserves			
Called up share capital			17,525
Reserves			112
Share premium			1,359
Profit and loss account			18,996
Shareholders' funds			18,996

## Notes:—

- The above pro-forma statement of net assets at 31st December, 1984 is based on:
  - the consolidated balance sheet of Kalon as shown in the accountants' report in Part IV of this document;
  - the consolidated balance sheet of Leyland as shown in the accountants' report in Part V of this document adjusted to reflect the following as if they had taken place at 31st December, 1984:
    - the receipt on 15th January, 1985 of £2,081,000 being the balance of the proceeds from the sale of the wallcovering interests;
    - the receipt on 15th January, 1985 of the proceeds of £1,673,000 from the disposal of the investment in Berkley Wallcoverings Inc.;
    - the payment of outstanding trade creditors of £1,615,000 and the collection of outstanding trade debtors of £1,977,000 of the wallcoverings operation;
    - to remove certain overheads amounting to £199,000 from the stock valuation of Leyland, in as to be on a comparable basis with Kalon.
  - The capital and reserves shown above assume the issue of 91,500,000 Ordinary shares of 15p each for the acquisition of Kalon. The merger has been accounted for in accordance with Statement of Standard Accounting Practice No. 23 on accounting for acquisitions and mergers.
  - The above pro-forma statement of net assets does not take into account the costs of the application for listing estimated at £550,000.
- Accounting policies
 

The accounting policies adopted by Kalon and Leyland, which are set out in the respective accountants' reports, do not differ in any material respects.



## Accountants' report on Kalon

The following is a copy of a report on Kalon by Robson Rhodes, Chartered Accountants, and Peat, Marwick, Mitchell & Co., Chartered Accountants, to the Directors of Kalon, the Directors of Leyland, the Directors of Warburgs and the Directors of County Bank.

Robson Rhodes  
186 City Road  
London  
EC1V 2NU

Peat, Marwick, Mitchell & Co.  
Unicentre  
Lords Walk  
Preston  
PR1 1LQ

The Directors,  
Kalon Limited

18th June, 1985

The Directors,  
Leyland Paint and Wallpaper p.l.c.

The Directors,  
S. G. Warburg & Co. Ltd.

The Directors,  
County Bank Limited

Gentlemen,

Kalon Limited

### 1. Introduction

We have examined the financial information set out below of Kalon Limited and its subsidiaries for the five years ended 31st December, 1984. Our examination has been carried out in accordance with approved auditing standards.

Robson Rhodes have been auditors to Kalon Limited throughout this period.

The financial information set out in this report is based on the audited accounts of Kalon Limited and its subsidiaries after making such adjustments as we consider appropriate.

In our opinion, the financial information set out under the heading Historical Cost Accounts gives, for the purpose of this document, under the historical cost convention, a true and fair view of the profit and source and application of funds of Kalon Limited and its subsidiaries for the five years ended 31st December, 1984 and of the state of affairs of Kalon Limited and its subsidiaries at that date.

In our opinion, the financial information set out under the heading Current Cost Accounts has been properly prepared in accordance with the policies and methods described in the notes thereto to give the information required by Statement of Standard Accounting Practice No. 16.

No audited accounts of Kalon Limited or any of its subsidiaries have been made up in respect of any periods subsequent to 31st December, 1984.

### HISTORICAL COST ACCOUNTS

#### 2. Consolidated profit and loss accounts

The profit and loss accounts of Kalon Limited and its subsidiaries for the five years ended 31st December, 1984 are set out below:

	Note	1980	1981	1982	1983	1984
Turnover	(i)	18,234	29,028	38,364	47,910	53,362
Cost of sales		(12,243)	(19,107)	(25,987)	(31,510)	(35,347)
Gross profit		5,991	9,921	12,377	16,400	18,015
Consequential loss insurance claim	(ii)	175	—	—	—	—
Distribution and selling costs		6,166	9,921	12,377	16,400	18,015
Administrative expenses		(3,292)	(5,632)	(7,432)	(9,038)	(10,269)
Operating profit		1,721	1,973	1,982	3,890	3,626
Share of loss of related company	(iii)	—	—	—	(25)	(6)
Interest payable	(iv)	(527)	(488)	(588)	(680)	(905)
Profit on ordinary activities before taxation		1,194	1,485	1,394	3,184	2,715
Taxation on profit on ordinary activities	(v)	(567)	(674)	(617)	(1,160)	(967)
Profit on ordinary activities after taxation		627	811	777	2,024	1,748
Extraordinary items after taxation	(vi)	1,127	(63)	—	696	1,098
Retained profit for the year		1,754	748	777	2,720	2,846
Earnings per share	(vii)	0.7p	0.9p	0.9p	2.2p	1.5p

#### 3. Consolidated balance sheets

The consolidated balance sheets of Kalon Limited and its subsidiaries at 31st December, 1980 to 1984 are set out below:

	Note	1980	1981	1982	1983	1984
Fixed assets		5,000	5,000	5,000	5,000	5,000
Tangible assets	(i)	4,145	6,279	6,922	11,484	15,070
Investments	(ii)	43	64	43	106	94
Current assets		4,190	6,343	6,967	11,590	15,164
Stocks	(iii)	3,678	5,896	5,970	6,679	8,727
Debtors	(iv)	4,580	7,497	8,488	9,953	11,622
Cash at bank and in hand		47	21	19	158	22
Creditors: Amounts falling due within one year		8,105	13,414	14,477	16,790	20,371
Bank overdraft	(v)	(2,335)	(3,156)	(3,167)	(3,642)	(6,042)
Trade creditors	(vi)	(2,894)	(5,961)	(5,390)	(7,179)	(8,569)
Other creditors	(vii)	(1,164)	(1,750)	(2,730)	(4,308)	(4,832)
Net current assets		(6,435)	(10,867)	(11,495)	(15,529)	(19,163)
Total assets less current liabilities		1,672	2,547	2,982	1,261	1,206
Creditors: Amounts falling due after more than one year		5,862	8,890	9,949	12,851	16,572
Provision for liabilities and charges	(viii)	(1,225)	(2,232)	(2,582)	(2,701)	(1,422)
Capital and reserves		4,367	6,172	6,949	9,669	14,548
Called up share capital	(ix)	350	350	350	350	350
Reserves	(x)	4,017	5,822	6,599	9,319	14,198

#### 4. Consolidated source and application of funds statements

The consolidated source and application of funds statements of Kalon Limited and its subsidiaries for the five years ended 31st December, 1984 are set out below:

	Note	1980	1981	1982	1983	1984
Source of funds:		5,000	5,000	5,000	5,000	5,000
Profit from ordinary activities before taxation		1,194	1,485	1,394	3,184	2,715
Extraordinary items before taxation		—	(151)	—	(65)	(81)
Adjustments for items not involving the movement of funds		1,194	1,334	1,394	3,119	2,634
Depreciation		500	992	1,206	1,432	1,659
(Profit)/loss on sale of tangible fixed assets		(3)	78	16	(18)	42
Exchange adjustment		22	(5)	(4)	7	(7)
Profit on sale of investments		—	—	—	(8)	(2)
Deficit arising in related company		—	—	—	26	6
Funds generated from operations		1,713	2,419	2,612	4,560	4,332
Funds from other sources		92	169	194	336	381
Sale of tangible fixed assets		113	175	2	20	74
Grants received		52	—	—	—	—
Corporation tax received		—	—	19	39	92
Sale of investments		—	—	—	—	—
Total funds generated		1,970	2,763	2,827	4,935	4,879
Application of funds:		2,079	2,361	2,057	6,341	3,702
Purchase of tangible fixed assets		—	785	—	—	—
Purchase of subsidiary		45	—	—	133	184
Purchase of investments		96	40	40	40	40
Loans repaid		19	—	—	—	215
Corporation tax paid		—	—	—	39	—
Investment in related company		—	—	—	—	—
Increase/(decrease) in working capital		(250)	(661)	726	(1,599)	738

#### Comprising:

Increase/(decrease) in current assets:

Stocks

Debtors

(Increase)/decrease in current liabilities:

Creditors excluding taxation and loans

Bank overdraft

#### Note in the consolidated source and application of funds statements—

Summary of the effects of the acquisition of Bewell Paints and Chemicals Limited and The New Victoria Wallpaper Company Limited in 1981:—

	£000
Net assets acquired:	
Tangible fixed assets	1,183
Stocks	2,472
Debtors	2,109
Bank balances	—
Creditors	(3,325)
Deferred taxation	(401)
Consolidation reserve arising on acquisition	(1,057)
Cash paid	785

#### 5. Accounting policies

The principal accounting policies which have been consistently applied in preparing the financial information set out in this report are as follows:—

##### (a) Accounting convention

The accounts are prepared under the historical cost convention, as amended by the revaluation of certain fixed assets.

##### (b) Basis of consolidation

The consolidated accounts comprise those of Kalon Limited and its subsidiaries. The results of subsidiaries acquired during a year are included from the date of acquisition. Goodwill or reserves arising are written off or credited to reserves in the year of acquisition.

##### (c) Turnover

Turnover represents the invoiced value of deliveries excluding value added tax and intra group sales.

##### (d) Regional Development Grants

Assets which qualify for Regional Development Grants are stated at their net cost, after deduction of grants received.

##### (e) Depreciation

Depreciation is provided in equal amounts each year in order to write off the cost of fixed assets over their anticipated useful lives. Estimated useful lives are:

Freehold buildings	50 years
Leasehold buildings	40 years
Plant and equipment	3 to 10 years
Motor vehicles	4 and 5 years

Freehold land does not bear depreciation where the original cost of purchase was separately identified.

##### (f) Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value.

In establishing cost, stocks and work in progress at the end of the year are taken to represent latest purchases or production. On this basis, cost comprises:

Raw materials	Purchase price
Work in progress	Raw materials, direct labour and attributable production overheads
Finished goods	

Net realisable value is based on estimated selling price after taking into account all further costs expected to be incurred on completion and disposal.

##### (g) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for accounting and taxation purposes.

Provision is made for deferred taxation in the extent that there is a reasonable probability that a liability will arise in the foreseeable future at the rate likely to be in force when the liability crystallises.

##### (h) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

##### (i) Research and development

Research and development expenditure is written off in the year in which it is incurred.

##### (j) Pensions

Kalon Limited operates a contributory pension scheme to provide retirement benefits for employees based on final salaries. Contributions are charged to the profit and loss account as they are made. Actuarial valuations of current funding requirements are made every three years.

#### 6. Notes to the historical cost accounts

##### (i) Turnover

The turnover of Kalon Limited and its subsidiaries, split geographically, for the five years ended 31st December, 1984 was:—

	1980	1981	1982	1983	1984
United Kingdom	14,762	24,058	32,600	40,458	45,559
Rest of Europe	3,472	4,970	2,646	3,613	3,328
Middle East	—	—	3,118	3,839	4,575
	18,234	29,028	38,364	47,910	53,362

##### (ii) Consequential loss insurance claim

The claim arose following a fire in the previous year and represents the proportion of the claim relating to 1980.

##### (iii) Operating profit

Operating profit is stated after charging:—

	1980	1981	1982	1983	1984
Directors' emoluments	180	219	379	417	489
Depreciation	500	992	1,206	1,432	1,659
Auditors' remuneration	21	31	30	30	32
Hire of plant	92	127	34	38	16

##### (iv) Employees

The average number of people employed by Kalon Limited and its subsidiaries in each of the three years ended 31st December, 1984 was as follows:—

	1980	1981	1982	1983	1984
Production	2,000	2,000	2,000	2,000	2,000
Sales and distribution	359	359	359	359	359
Administration	162	162	162	162	162
	901	946	946	946	946
Costs in respect of these employees:—					
Wages and salaries	6,237	6,902	6,902	8,383	—
Social security costs	632	652	652	724	—
Pension costs	406	476	476	607	—
	7,275	8,030	8,030	9,714	—

##### (v) Interest payable

Interest payable comprised:—

	1980	1981	1982	1983	1984
Bank overdraft	456	343	444	494	727
Hire purchase	79	106	160	163	155
Debenture	44	37	30	23	15
Other	7	2	—	—	10
Interest relief grant	(59)	—	(49)	—	—
	527	488	589	680	905

##### (vi) Taxation on profit on ordinary activities

The taxation charge is made up as follows:—

	1980	1981	1982	1983	1984
UK corporation tax	567	674	617	1,160	967
Deferred taxation	—	—	—	—	—
	567	674	617	1,160	967

UK corporation tax payable was calculated at 52 per cent. in 1980, 50.5 per cent. in 1983 and 46.25 per cent. in 1984. The charge for deferred taxation was calculated at 52 per cent. in 1980, 1981 and 1982 and at 55 per cent. in 1983 being the rate at which the liability was expected to crystallise.

The tax charge of Kalon Limited and its subsidiaries reflects the benefit of stock relief available in each year.

##### (vii) Extraordinary items after taxation

	1980	1981	1982	1983	1984
Losses on guarantees, loans and investments in respect of non-related businesses	—	—	—	(65)	(84)
Redundancy and closure costs	—	(131)	—	—	(61)
Loss on oil exploration partnership	—	—	—	(54)	(61)
Write-off of excess cost of fixed assets	—	—	—	—	(36)
Tax on extraordinary items	—	68	—	—	—
Deferred taxation (see notes below)	1,127	—	—	815	1,279
	1,127	(63)	—	696	1,098

#### Notes:—

1. The release of deferred taxation in 1980 of £1,127,000 was in respect of stock relief.

2. The release of deferred taxation of £815,000 in 1983 arose as a result of the provision being made principally at 35 per cent. instead of 52 per cent. previously in force, as a consequence of the changes in the Finance Act 1984.

3. In 1984 the Directors re-assessed the deferred taxation provision required to meet future foreseeable tax liabilities and as a consequence £1,279,000 was released.

#### (viii) Earnings per share

Earnings per share are based on the profit for the year after taxation but before extraordinary items and on the assumption that 91.5 million Ordinary shares of 15p each in Kalon Group PLC are to be issued to the holders of 390,000 Ordinary shares of £1 each in Kalon Limited, which have been in issue throughout the period.

#### (ix) Tangible fixed assets

At 31st December, 1984:—

	Cost or valuation £000	Depreciation £000	Net book value £000
Freehold property	7,806	277	7,529
Leasehold property	232	38	194
Plant and equipment	10,038	4,513	5,525
Motor vehicles	3,358	1,536	1,822
	21,434	6,364	15,070

The freehold property at Bursall, West Yorkshire was valued at 31st December, 1984 by Messrs. Simon Henderson & Partners, Chartered Surveyors, assuming open market value for existing use and vacant possession, at £5,230,000. The remaining freehold properties, having a book value of £2,299,000, have not been valued. In the opinion of the Directors of Kalon Limited, the book value would not be materially different from market value.

#### (x) Investments

At 31st December, 1984:—

	£000	£000
Limited investments at cost (market value £81,000)	—	81
Related company:		
Shares at cost	39	5
Less: share of accumulated losses	(31)	—
Unlisted investment	—	94

The related company is Summit Chemicals Limited, a



## (ii) Consolidated balance sheet

The consolidated current cost balance sheet of Leyland Paint & Wallpaper p.l.c. and its subsidiaries as at 31st December, 1984 is set out below:

	Note	1984 £000
Fixed assets	8 (iv)	16,098
Investments		94
Working capital		8,789
Stocks		11,645
Debtors		20,434
Less: creditors		19,164
Net current assets		1,270
Net operating assets		17,462
Hire purchase and debentures		(402)
Deferred taxation		(1,422)
Capital and reserves		15,638
Share capital		350
Current cost reserve	8 (iv)	11,475
Profit and loss account		15,638

## 8. Notes to the current cost accounts

## (i) Basis of accounting

## (a) Basis of preparation

The current cost accounts in paragraph 7 above have been prepared in accordance with the principles set out in Statement of Standard Accounting Practice No. 16. The current cost adjustments have been calculated by reference to specific indices compiled by the Central Statistical Office. The following notes state in general how these principles have been applied.

## (b) Stocks and cost sales

Stocks have been included at their value to the business and the cost of sales adjustment has been calculated on the averaging method.

## (c) Monetary working capital

The adjustment in respect of monetary working capital has been calculated on the averaging method using the specific indices applied to stocks and represents the impact of price changes on the monetary working capital of Leyland Paint & Wallpaper p.l.c. and its subsidiaries.

## (d) Fixed assets and depreciation

(i) Fixed assets are included in the balance sheet at their value to the business which is based on historical cost or valuation adjusted to net current value.

(ii) Depreciation adjustment represents the difference between the charge in the historical and current cost accounts. A revision of the estimated useful lives of freehold and leasehold property and plant and machinery has been made in the current cost accounts only.

## (e) Gearing

The gearing adjustment represents the proportion of the current cost adjustment financed by sources of capital other than shareholders' funds.

## (ii) Current cost adjustments

	1983 £000	1984 £000
Adjustments in operating profit:		
Depreciation	222	130
Profit on sale of assets	30	51
Cost of sales	252	181
Monetary working capital	383	390
	(38)	(84)
	597	487

## (iii) Fixed assets

	Gross current cost £000	Accumulated depreciation £000	Net current cost £000
Land and buildings	8,331	506	7,825
Plant, machinery and equipment	17,426	9,153	8,273
	25,757	9,659	16,098

## (iv) Current cost reserve

	1983 £000	1984 £000
Balance 1st January	736	2,725
Movement in the year		
Unrealised revaluation surplus		
— Fixed assets	1,627	743
— Stocks	17	17
— Monetary working capital	597	487
Current cost adjustments	(235)	(161)
Gearing adjustment	1,989	1,088
Balance at 31st December	2,725	3,813
Comprising:		
Unrealised	2,361	3,125
Realised	364	688
	2,725	3,813

ROBSON RHODES  
Chartered Accountants

You faithfully,

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants

## Accountants' report on Leyland

The following is a copy of a report on Leyland Paint & Wallpaper p.l.c. by Peat, Marwick, Mitchell & Co., Chartered Accountants, and Robson Rhodes, Chartered Accountants, the Directors of Leyland, the Directors of County Bank and the Directors of Warburgs.

Peat, Marwick, Mitchell & Co.  
Unicentre  
Lords Walk  
Preston  
PR1 1LQ

Robson Rhodes  
186 City Road  
London  
EC1V 2NU

The Directors,  
Leyland Paint & Wallpaper p.l.c.

The Directors,  
County Bank Limited

The Directors,  
S. G. Warburg & Co. Ltd.

Gentlemen,

Leyland Paint & Wallpaper p.l.c.

## 1. Introduction

We have examined the audited accounts of Leyland Paint & Wallpaper p.l.c. ("Leyland") and the audited consolidated accounts of Leyland and its subsidiary companies (together referred to as the "Leyland Group") for the five years ended 31st December, 1984.

Peat, Marwick, Mitchell & Co. have been auditors of Leyland throughout the relevant period.

The summarised historical cost profit and loss accounts, balance sheets and source and application of funds statements set out below are based on the audited accounts after making such adjustments and apportionments as we consider appropriate. Our opinion these summarised accounts, together with the notes thereon, give a true and fair view of the results and sources of application of funds of the Leyland Group for the five years ended 31st December, 1984 and of the state of affairs of the Leyland Group at that date.

The summarised current cost accounts set out below for the two years ended 31st December, 1984 have, in our opinion, been properly prepared in accordance with the accounting policies and methods described below in give the prescribed information in accordance with Statement of Standard Accounting Practice No. 16.

No audited accounts of any of the companies in the Leyland Group have been prepared for any period subsequent to 31st December, 1984.

## HISTORICAL COST ACCOUNTS

## 2. Consolidated profit and loss accounts

The profit and loss accounts of the Leyland Group for the five years to 31st December, 1984 are set out below. These results apply to show the amounts attributable to continuing operations and the amounts attributable to those parts of the group and wolverine operations on longer carried on.

	Note	1980 £000	1981 £000	1982 £000	1983 £000	1984 £000
Continuing operations						
Turnover	(i)	14,389	15,735	16,951	17,096	15,896
Cost of sales		(8,599)	(9,708)	(10,414)	(10,894)	(10,405)
Gross profit		5,790	6,027	6,537	6,202	5,491
Distribution costs		(2,759)	(3,191)	(3,834)	(3,745)	(3,724)
Administrative expenses		(1,688)	(2,087)	(2,413)	(2,570)	(1,910)
Sundry income		59	26	78	172	143
Operating profit		1,422	775	368	59	—
Share of profits of related companies		—	—	30	24	10
Interest payable and similar charges		(221)	(179)	(269)	(285)	(260)
Profit/(loss) on ordinary activities before taxation	(ii)	1,201	596	129	(202)	(250)

## Discontinued operations

	Note	1980 £000	1981 £000	1982 £000	1983 £000	1984 £000
Turnover	(i)	24,461	23,871	22,531	15,790	7,053
Cost of sales		(16,566)	(15,240)	(16,529)	(11,846)	(5,549)
Gross profit		7,895	8,631	6,002	3,944	1,504
Distribution costs		(4,818)	(5,928)	(6,101)	(3,882)	(1,140)
Administrative expenses		(3,268)	(2,408)	(2,378)	(964)	(288)
Sundry income		91	48	22	9	113
Operating profit/(loss)		(100)	343	(2,455)	(893)	189
Share of profits of related companies		—	—	23	274	443
Interest payable and similar charges		(675)	(517)	(685)	(490)	(356)
Profit/(loss) on ordinary activities before taxation	(ii)	(775)	(174)	(3,117)	(1,109)	276
Total						
Turnover	(i)	38,850	39,606	39,482	32,886	22,949
Profit/(loss) on ordinary activities before taxation	(ii)	426	422	(2,968)	(1,311)	26
Taxation on profit/(loss) on ordinary activities	(v)	(683)	(174)	(190)	120	(66)
Profit/(loss) on ordinary activities after taxation		(257)	348	(3,178)	(1,191)	(40)
Extraordinary items after taxation	(vi)	983	208	42	(1,596)	(2,122)
		726	356	(3,136)	(2,787)	(2,162)
Ordinary dividend		(159)	(238)	—	—	—
Retained profit/(loss) for year		567	318	(3,136)	(2,787)	(2,162)
Earnings/(losses) per share	(vii)	(1.6p)	2.2p	(20.0p)	(7.5p)	(10.2p)

## 3. Consolidated balance sheets

The consolidated balance sheets of the Leyland Group at 31st December, 1980 to 1984 are set out below:

	Note	1980 £000	1981 £000	1982 £000	1983 £000	1984 £000
Fixed assets						
Tangible assets	(viii)	6,822	6,578	7,235	5,198	2,931
Investments	(ix)	83	132	426	521	91
		6,905	6,710	7,661	5,719	3,022
Current assets						
Stocks	(x)	8,143	8,536	8,370	5,152	3,137
Investments	(xi)	190	190	190	190	680
Debtors	(xii)	4,127	5,785	5,617	5,871	8,220
Cash at bank and in hand		126	102	107	31	30
		12,396	14,613	14,284	11,244	12,077
Creditors: amounts falling due within one year						
Bank overdraft	(xiii)	1,026	1,315	3,207	4,051	4,458
Other loans		666	750	750	5,261	5,261
Creditors and accruals	(xiv)	5,940	7,462	8,029	6,454	5,261
Corporation tax		—	94	—	34	—
Proposed dividend		199	119	—	—	—
		7,791	9,746	11,986	10,559	10,429
Net current assets		4,605	4,867	2,298	685	1,648
Total assets less current liabilities		11,510	11,577	9,959	6,404	4,670
Creditors: amounts falling due after more than one year						
Term loan		(1,449)	(1,128)	(1,417)	(1,010)	—
Corporation tax		(434)	(137)	(85)	(19)	—
Other creditors		(1,883)	(1,445)	(1,607)	(1,029)	—
Provision for liabilities and charges	(xv)	(64)	20	(282)	(102)	(29)
		9,563	10,152	8,060	5,273	4,641
Capital and reserves						
Share capital	(xvi)	3,971	3,971	3,971	3,971	3,800
Share premium account	(xvii)	—	—	—	—	112
Revaluation reserve	(xviii)	1,517	1,788	2,832	2,832	2,116
Capital reserves	(xix)	730	1,074	1,278	1,498	3,107
Profit and loss account	(xx)	3,345	3,319	(21)	(3,029)	(4,494)
		9,563	10,152	8,060	5,273	4,641

## 4. Consolidated source and application of funds statements

The consolidated source and application of funds statements of the Leyland Group for the five years ended 31st December, 1984 are set out below:

	1980 £000	1981 £000	1982 £000	1983 £000	1984 £000
Source of funds					
Profit/(loss) on ordinary activities before taxation	426	422	(2,968)	(1,311)	26
Extraordinary items before taxation	(20)	373	54	(1,596)	(2,122)
	406	795	(2,914)	(2,907)	(2,096)
Adjustments for items not involving the movement of funds					
Depreciation	1,623	1,402	1,208	1,024	750
(Profit)/loss arising on disposal of tangible fixed assets	(15)	(407)	(133)	(298)	(448)
Share of profits of related companies	25	—	—	(41)	(934)
Funds generated from operations	2,039	1,790	(1,912)	(2,160)	(2,740)
Funds from other sources					
Issue of share capital less costs	—	—	—	—	1,530
Disposal of tangible fixed assets	124	853	621	1,367	2,206
Additional loan capital	500	250	289	—	—
Disposal of related companies	—	—	—	123	1,673
Total funds generated	2,663	2,893	(1,002)	(670)	2,669
Application of funds					
Purchase of tangible fixed assets	1,518	1,333	1,283	416	677
Corporation tax paid	137	49	98	—	—
Dividends paid	318	278	119	—	—
Acquisition of subsidiary	445	—	—	—	—
Investment in related companies	—	239	241	—	—
Loan repaid	10	487	—	1,137	354
Hire purchase commitments repaid	—	423	296	58	60
	2,448	2,805	1,997	1,631	1,091
	215	84	(2,999)	(2,301)	1,578

## Increase/(decrease) in working capital comprising:

## Increase/(decrease) in net current assets:

Stocks	(507)	393	(166)	(3,218)	(2,015)
Debtors	(483)	1,638	(188)	224	2,349
Creditors falling due within one year	2,006	(1,654)	(778)	1,585	1,132
Investments	—	—	—	—	500
	1,014	397	(1,112)	(1,381)	1,986

## Movement in net liquid funds

Cash at bank and in hand	(60)	(24)	5	(76)	(1)
Bank overdraft	(739)	(289)	(1,892)	(844)	(407)
	215	84	(2,999)	(2,301)	1,578

## 5. Accounting policies

The principal accounting policies which have been consistently applied in preparing the financial information set out in this report are as follows:

## (a) Accounting convention

The accounts have been prepared under the historical cost convention as amended by the revaluation of certain fixed assets.

## (b) Basis of consolidation

The consolidated accounts comprise those of Leyland and its subsidiaries all of which were wholly owned throughout the five year period, together with the attributable results of related companies.

## (c) Turnover

Turnover represents sales to third parties excluding value added tax, trade discounts and intra-group sales.

## (d) Depreciation

Depreciation is charged on a straight line basis, after taking account of government grants receivable, on the original cost or subsequent valuation of assets (excluding land) by reference to the estimated remaining life of the assets and is calculated on the following bases:

Freehold and long leasehold buildings	By reference to the estimated remaining life of the properties, currently ranging from 1 year to 54 years.
Short leasehold buildings	By reference to the unexpired portion of the lease.
Plant and machinery	10 per cent. per annum.
Furniture and fittings	10 per cent. — 25 per cent. per annum.
Motor vehicles	25 per cent. per annum.
Printing rollers	By reference to the unexpired working life.

## (e) Stocks

Stocks are valued at the lower of cost and net realisable value. The cost of work in progress and finished goods includes a proportion of attributable overhead expenses.

## (f) Deferred taxation

Deferred taxation is provided on all timing differences which, in the opinion of the directors, may give rise to a liability in the foreseeable future. The provision is calculated on the liability method at the corporation tax rates ruling at the date the liability is expected to crystallise. Advance corporation tax on dividends is carried forward to the extent it can be recovered. Any amount in excess of this is written off as part of the taxation charge.

## (g) Research and development

Expenditure on research and development, patents and trademarks is written off as incurred.

## (h) Hire purchase transactions

Fixed assets acquired by hire purchase are included in the accounts at cost and the capital portion outstanding is included in creditors. The hire purchase interest charges are written off in the profit and loss account as incurred over the contract period.

## (i) Hire of plant, machinery and equipment

Amounts payable under operating leases are charged to profit and loss account in the period to which the payments relate.

## (j) Foreign currencies

Investments in overseas related companies are converted to sterling in the accounts at the rate prevailing at the date of investment. The results of these companies are converted to sterling at the average rate for the financial year.

## (k) Pensions

The Leyland Group operates a contributory pension scheme to provide retirement benefits based on final salaries for the majority of its permanent employees. The scheme funds are administered by trustees and are independent of the Leyland Group's finances. Contributions are paid to the scheme in accordance with the recommendations of independent actuaries.

## 6. Notes to the historical cost accounts

## (i) Turnover

The Leyland Group turnover, split geographically, for the five years ended 31st December, 1984 was:

	1980 £000	1981 £000	1982 £000	1983 £000	1984 £000
<b>Continuing operations</b>					
United Kingdom	13,236	14,166	14,993	14,811	13,692
Rest of Europe	1,153	1,569	245	185	96
Middle East	—	—	1,713	2,100	2,104
Others	—	—	—	—	5
	<u>14,389</u>	<u>15,735</u>	<u>16,951</u>	<u>17,096</u>	<u>15,896</u>
<b>Discontinued operations</b>					
United Kingdom	21,278	20,469	18,172	11,237	4,562
Rest of Europe	—	—	3,305	2,472	1,311
America and Canada	—	—	393	1,160	828
Middle East	3,183	3,402	650	807	68
Others	—	—	—	294	84
	<u>24,461</u>	<u>23,871</u>	<u>22,531</u>	<u>15,790</u>	<u>7,053</u>



(e) Save as disclosed above, none of the Directors has any interest in the share capital of the Company.



(d) The aggregate of the remuneration paid and benefits in kind granted to the Directors of the Company by Kalon or (as the case may be) Leyland and their respective subsidiaries during the year ended 31st December, 1984 amounted to £1448,000. The aggregate of the remuneration payable and benefits in kind to be granted to the Directors by the Company and its subsidiaries in the current financial year is estimated to amount to £1599,000.

(e) On 17th May, 1985 Kalon made an unsecured loan of £50,000 to Leeds United Football Club Limited of which Mr. L. H. Silver is Chairman and holds approximately 15 per cent. of the issued share capital. This loan has since been repaid. Save as disclosed herein, none of the Directors has any interest in any transactions entered into by the Company or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year (where these remain outstanding or unperformed) and which are or were unusual in their nature or conditions or significant to the business of the Company or its subsidiaries.

(f) Save for the Directors' holdings referred to above, and Investors in Industry plc which immediately following the merger will hold 15,724,999 Ordinary shares representing 11.7 per cent. of the issued share capital, the Company is not aware of any other interests in 9 per cent. or more of the issued share capital of the Company following the merger or of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

#### 4. Service agreements

On 21st June, 1985 the Company will enter into service agreements with the following executive Directors of the Company at current annual salaries (inclusive of Directors' fees) as follows: L. H. Silver, £100,000; J. B. McDonald, £42,500; O. Brosh, £42,500; J. S. Huntley, £42,500; G. E. Moore, £42,500; M. S. Silver, £29,000; E. Smith, £35,000.

Each of the above service agreements is for a term of approximately two and a half years commencing 21st June, 1985 and continues thereafter unless terminated by either party giving to the other two years written notice to expire at any time on or after 31st December, 1987.

Under his service agreement the total emoluments payable to Mr. J. B. McDonald will be increased from those previously payable by £6,460 in take into account the elimination of his rights to a profit related bonus.

Save as disclosed, none of the Directors of the Company has a service agreement with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation (other than statutory compensation).

#### 5. Share schemes

The following is a summary of the three schemes involving employees of the Group in the capital of the Company:

##### (i) The Leyland Paint & Wallpaper p.l.c. Share Option Scheme ("the Old Scheme")

###### (a) Introduction

The Old Scheme was adopted by the shareholders of Leyland in general meeting on 15th March, 1973 pursuant to the Finance Act 1972. No further options will be granted under the Old Scheme but eight employees currently hold options over Ordinary shares under the terms of the Old Scheme which are still capable of exercise.

###### (b) Terms of exercise

(i) An option may not be exercised before the third anniversary of the date of grant (except in the circumstances mentioned in this paragraph (b)) or after the seventh anniversary of the date of grant.

(ii) If an employee holding an unexercised option dies, his legal personal representatives may exercise that option in whole or in part within twelve months after the date of his death; otherwise it will lapse.

(iii) If a person holding an unexercised option ceases to be employed by reason of injury, disability, redundancy or retirement or at any other time, he may exercise the option in whole or in part within six months of the date of his ceasing to be employed; otherwise it will lapse.

(iv) If a person holding an unexercised option ceases to be employed by reason of retirement within five years before his normal retirement age (other than by reason of disability, injury or redundancy) he may exercise his option within six months of his retirement, subject to such restrictions as the Directors may in their discretion impose.

(v) If a person ceases to be employed for any reason other than those set out in (b)(iii) and (b)(iv) above any options then held by him will lapse unless the Board in its sole discretion otherwise decides in the case of an employee who leaves (a) to take up employment (i) with a company in which he has a material interest, or (ii) of a public nature; or (b) by reason of the company by which he is employed ceasing to be a member of the Group. In that event his option may be exercised within six months of his leaving and will thereafter lapse.

(vi) If an employee holds an unexercised option at the date when any company either making a general offer or otherwise has acquired a majority of the issued ordinary share capital of the Company, he may exercise his option within six months from the date when such offer becomes known to him provided that if during such period the offeror issues a notice under section 203 of the Companies Act 1948 and indicates that it intends to exercise the right of compulsory acquisition in respect of shares in the Company, he may exercise his option by a specified date, options will be exercisable until such date and will thereafter lapse.

(vii) In the event of notice being given of a resolution for the voluntary winding up of the Company outstanding options shall be exercisable until the passing of the resolution (and shall thereafter lapse) provided that exercise is conditional upon the resolution being duly passed.

###### (c) Adjustment

The Board may adjust (subject to confirmation in writing by the auditors for the time being that such adjustment is fair and reasonable in their opinion) the number of shares under option and available for option, and/or the option price, to take account of any capitalisation issue, rights issue, or consolidation, sub-division or reduction of capital of the Company.

###### (d) Rights attaching to shares

Shares allotted on exercise of an option will rank pari passu in all respects with the Ordinary shares then in issue except that they will not rank for any dividend or distribution of the Company proposed to be paid to shareholders on the register on a date which precedes the date of exercise.

##### (ii) The Savings Related Share Option Scheme ("the Savings Related Scheme")

###### (a) Introduction

The Savings Related Scheme which was adopted by shareholders on 27th May, 1982 is an Inland Revenue approved scheme under the provisions of the Finance Act 1980 (as amended) and is administered by the Directors.

###### (b) Eligible employees

All UK employees (including executive Directors) of the Company, and of any of its subsidiaries which the Directors have decided shall participate, whose normal working week is twenty-five hours or more and who have completed at least one year's continuous service up to the date of participation may also be offered at the Directors' discretion to other full-time employees of participating companies provided their normal working week is at least sixteen hours.

###### (c) Subscription price

The price at which a participant may subscribe for Ordinary shares on the exercise of an option shall be determined by the Directors to be not less than 90 per cent. of the average of the middle market quotations of shares as derived from The Stock Exchange Daily Official List over the earliest three dealing days during the thirty days before eligible employees were granted options (or, if higher, the nominal value of a share).

###### (d) Grant of options

(i) Subject to the limitations of the Savings Related Scheme all eligible employees may, at the Directors' discretion, be invited to participate once in any financial year during the two months following either the publication of the Company's interim results for any financial year or the conclusion of the Annual General Meeting of the Company.

(ii) An employee who applies to participate will normally be granted an option over that number of shares the aggregate subscription price of which is as nearly as possible equal to but does not exceed the proceeds (including bonus) of the relevant SAVE contract. Options may not be assigned.

###### (e) Savings contract

(i) Eligible employees who wish to participate in the Savings Related Scheme must enter into a contract with the Company (the "savings contract") approved for this purpose by the Inland Revenue.

(ii) Under the savings contract an employee contracts to make fixed monthly contributions by deductions from remuneration. After five years, an employee may apply for repayment of his contributions together with a tax free bonus equal to fourteen monthly contributions and may use the proceeds to acquire shares. If he elects to leave his contributions in the savings contract for a further two years, he will become entitled to an increased tax-free bonus equal to twenty-eight monthly contributions. The bonuses payable under the savings contract may be varied from time to time by Treasury Order.

(iii) The contributions to the savings contract must be in multiples of £1 per month and must be not less than £10 nor, when aggregated with contributions under other contracts linked to the Savings Related Scheme, be more than the lesser of £100 and the amount as shall from time to time be permitted for the purposes of the approval of the Savings Related Scheme by law (currently £100). If the number of shares over which options are applied for exceeds the number made available under the Savings Related Scheme by the Directors on that occasion then employees' contributions under the savings contract will be scaled down and the numbers of shares over which options are granted will be correspondingly reduced.

###### (f) Limitations on the Savings Related Scheme

(i) The maximum number of shares which may be acquired in respect of options granted pursuant to the Savings Related Scheme shall be limited to 3 per cent. of the issued ordinary share capital of the Company from time to time and to any event shall not exceed 8,750,000 shares provided that such figure may be adjusted as appropriate (subject to the auditors confirming in writing that in their opinion such adjustment is fair and reasonable) to take account of any capitalisation, rights issue, consolidation or sub-division affecting such shares or any reduction of the ordinary share capital of the Company.

(ii) No option may be granted after the tenth anniversary of the shareholders' approval of the Savings Related Scheme.

###### (g) Exercise of options

(i) Options may be exercised to whole or in part:

(a) during the six month period next following the date on which a participant becomes entitled to the bonus payable under the savings contract (the "bonus date"); or, to the extent that the amount repaid to him under the savings contract allows;

(b) within six months of a participant leaving the service of the Company or any of its subsidiaries because he is injured, disabled, made redundant or retires on reaching normal retirement age; or

(c) within six months of a participant leaving the service of the Company or any of its subsidiaries more than three years from the date of grant by reason of early retirement; or

(d) within six months of a participant in service reaching state pensionable age and continuing in service; or

(e) where a participant dies during the course of his savings contract (i.e. before the bonus date), within twelve months after his death (or if he dies within six months after the bonus date) within twelve months after the bonus date.

###### (ii) Options shall lapse:

(a) where a participant leaves service for any reason other than those specified in paragraph (i)(b), (c) or (d) above; or

(b) on the expiry of the periods prescribed for their exercise except in the case of a participant in service reaching state pensionable age and continuing in service; or

(c) if a participant's right to make contributions lapses under the savings contract before the completion of contributions

and to any of these events a participant will be entitled to the proceeds then due to him under the savings contract including any bonus or interest accrued.

#### (b) Listing

Application will be made by the Company to the Council of The Stock Exchange for shares allotted following exercise of any option to be admitted to the Official List of The Stock Exchange. Such shares will rank pari passu in all respects with other issued shares of the Company.

#### (c) Reorganisation of capital

In the event of a capitalisation or rights issue or any consolidation, sub-division, conversion or reduction of any of the authorised or issued share capital of the Company the Directors may make such adjustment to the number of shares or nominal amount comprised in each option and/or the option price thereunder as is confirmed to writing by the auditors of the Company to be, in their opinion, fair and reasonable. In such event, adjustment as aforesaid shall also be made to the total number of shares available under the Savings Related Scheme.

#### (d) Change in control of the Company and voluntary winding up

Options may, subject to paragraph (g)(i) above, be exercised if a takeover offer for the Company becomes unconditional or if the Court sanctions a compromise or arrangement under section 206 of the Companies Act 1948. Similarly, subject to paragraph (g)(ii) above, options may be exercised for six months following the passing of a resolution for the voluntary winding up of the Company and shall thereafter lapse.

#### (e) Amendments

The Rules of the Savings Related Scheme may be amended by the Directors in any respect provided that:

(i) no amendment may be made to the following without prior consent of the Company to general meeting:—

- the periods during which options may be offered;
  - the basis of calculation of the subscription price;
  - the total number of shares available for the Savings Related Scheme;
  - the rules governing amendment of the Savings Related Scheme;
  - the rights attaching to the shares on their allotment following the exercise of options;
  - the persons eligible to participate;
  - the maximum contribution of each participant in the savings contract;
  - the basis of participation of employees in the Savings Related Scheme or the period during which options may be granted or exercised;
  - the rules governing reorganisation of capital, takeover or the winding up of the Company;
- (ii) no amendment may be made without the prior approval of the Inland Revenue.

#### (iii) The 1985 Executive Share Option Scheme ("the 1985 Scheme")

##### (a) Continuation of the 1985 Scheme

(i) The 1985 Scheme, for which Inland Revenue approval has been sought under the provisions of the Finance Act 1984, will be governed by the rules summarised herein and will be administered by the Directors.

(ii) The Directors may terminate the 1985 Scheme at any time or amend the rules but not so as to affect options already granted to participating employees or (except with the prior approval of shareholders in general meeting) the provisions of the 1985 Scheme relating to:

- (a) eligibility for participation;
  - (b) the number of shares available for the 1985 Scheme and for individual participants;
  - (c) the basis of subscription;
  - (d) the exercise of options; or
  - (e) the voting, dividend, transfer or other rights including those arising on liquidation.
- No amendment may be made without the prior approval of the Inland Revenue.

##### (b) Eligibility

Participation in the 1985 Scheme will be offered to executives who devote substantially the whole of their working time in their duties and who are not within two years of retirement, at the sole discretion of the Directors.

##### (c) Shares

The shares to be appropriated for issue under the 1985 Scheme will be Ordinary shares.

##### (d) Share price

The exercise price per share will not be less than the middle market quotation of the shares derived from The Stock Exchange Daily Official List for the three business days immediately preceding the date of grant of the option (or the nominal value of the shares if this is greater).

##### (e) Rights and restrictions

(i) An option granted under the 1985 Scheme may not be exercised before the third anniversary of the date of grant (except in the circumstances mentioned in this paragraph (e)) or after the tenth anniversary of the date of grant.

(ii) If an employee holding an unexercised option granted under the 1985 Scheme dies, his legal personal representatives may exercise that option in whole or in part within twelve months after the date of his death; otherwise it will lapse.

(iii) If a person holding an unexercised option granted under the 1985 Scheme ceases to be employed within the Group by reason of injury, disability, redundancy within the meaning of the Employment Protection (Consolidation) Act 1978, retirement, or the company by which he is employed ceasing to be a member of the Group, he may exercise the option in whole or in part within six months of the date of his ceasing to be employed or, if later, the third anniversary of the date of grant of the option; otherwise it will lapse.

(iv) If a person ceases to be employed within the Group for any reason other than those set out in (e)(iii) above any options then held by him will lapse unless, in the case of an option granted not less than three years before the date of his ceasing to be employed, the Directors in their sole discretion otherwise decide.

(v) If an employee holds an unexercised option granted under the 1985 Scheme at the date when any person makes a general offer to acquire the whole of the issued ordinary share capital of the Company, he may exercise his option within four months from the date when such offer is declared or becomes unconditional provided that if during such period the offeror issues a notice under section 203 of the Companies Act 1948 options will be exercisable for 14 days following such issue and will thereafter lapse.

(vi) In the event of notice being given for any scheme of reconstruction or amalgamation of the Company under section 206 of the Companies Act 1948, an employee holding an option may exercise it within three months following sanction of such scheme by the Court.

(vii) In the event of notice being given of a resolution for the voluntary winding up of the Company (other than for the purposes of reconstruction or amalgamation when outstanding options are taken into account) outstanding options shall be exercisable until the commencement of the winding up.

##### (f) Limits

(i) An individual will not be granted any options if the total subscription price for the shares comprised in those options, when added to the total subscription price of shares under options already granted to him under the 1985 Scheme or any other share option scheme (other than a Finance Act 1980 Save As You Earn scheme), at any time in the preceding ten years would exceed four times his annual remuneration subject to PAYE at the time of the proposed grant of any such options.

(ii) The aggregate number of shares put under option pursuant to this and any other share option scheme (except a Finance Act 1980 Save As You Earn scheme) in the preceding ten years (which options have been exercised or remain exercisable) will not exceed 5 per cent. of the issued ordinary share capital of the Company from time to time and in any event will not exceed 8,750,000 shares.

##### (g) Adjustment

The Board may adjust (subject to confirmation in writing by the auditors for the time being that such adjustment is fair and reasonable in their opinion and subject to Inland Revenue approval) the number of shares under option and available for option, and/or the option price, to take account of any capitalisation issue, rights issue, consolidation, sub-division or reduction of capital of the Company or the making by the Company of an exempt distribution by virtue of Part I of Schedule 18 to the Finance Act 1980 (i.e. a demerger of a subsidiary or its trade).

##### (h) Rights attaching to shares

Shares allotted on exercise of an option will rank pari passu in all respects with the shares then in issue except that they will not rank for any dividend or distribution of the Company announced prior to the date of exercise.

#### 6. Placing agreement

By an agreement dated 18th June, 1985 made between (1) The Company, (2) G. A. Thomas and J. B. McDonald, (3) L. H. Silver, (4) O. Brosh, J. S. Huntley, D. W. Kornmeyer, C. E. Moore, M. S. Silver and E. Smith, (5) Waburg and (6) County Bank, Waburg and County Bank have agreed, subject to the admission to the Official List of The Stock Exchange, a total of 2.4 million common shares of Berkeley (including 800,000 of the Company's holding of 1,000,000 such shares) were deposited in escrow on the terms therein stated.

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## THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

## Entrepreneurs

## A conspicuous shortage of vision and flair

Guy de Jonquieres continues this series by examining the record of those seen as economic rejuvenators

EVERYBODY needs heroes, particularly when times are tough. As Western Europe struggles with sluggish growth and rising unemployment, the quest for economic rejuvenation almost everywhere has created its own man of the hour—the plucky and ingenious entrepreneur.

Tributes to "small is beautiful" and exhortations to greater individual risk-taking are now heard as often from Socialist ministers in France as in Britain and West Germany. In almost every country, steps have been taken or are planned to stimulate small business activity by cutting red tape and providing fiscal incentives.

Venture capital funds, almost unknown in most of Europe a few years ago, are springing up to provide equity finance for "start-up" companies. The Brussels-based European Venture Capital Association (EVCA), formed in 1983 with EEC support, now has more than 100 members and estimates that almost Ecu 5bn is available for investment.

The one element in conspicuously short supply so far is entrepreneurs; or, rather, enough of them with the drive, vision and management flair needed to turn today's small firms into tomorrow's big businesses. "The number of potential growth companies in Europe run by people with a growth mentality is very small," says Raymond Appleyard, head of the EEC Commission's innovation division.

An EEC study of 40-odd newly-formed European firms in the late 1970s found that few had coherent business plans for future growth and none was seriously trying to expand outside its home market. By some estimates, lack of suitable opportunities has also driven European venture capitalists to invest more than half their funds so far outside Europe—chiefly in the U.S.

Academics, government officials and financiers agonise endlessly over the reasons. Is it just a question of time? Are further changes in government policies needed? Or is it that, as one senior EEC official wondered aloud recently: "Maybe we Europeans just aren't very competitive people?"

Even fervent enthusiasts believe it will be at least a decade before Europe masters the formula for success. "I am an optimist, but it would take a miracle to catch up with the U.S.," says Maurice Tchenio, head of the Paris affiliate of Alan Patricot Associates, a leading American venture capital firm. "The best we can hope for is to keep the gap constant."

The pace has, nonetheless, quickened since the late 1970s. Most of it is still centred in Britain, the first country in



Europe to embrace the entrepreneurship cult. From 1981 to 1984, Ecu 1bn of venture capital investments were made in the UK, two-thirds of the EEC total, according to accountants Peat Marwick Mitchell. That compares with Ecu 12bn in investments made in the U.S. in the same period.

The UK Unlisted Securities Market, established in late 1980, is also by far the biggest vehicle in Europe for the issuing and trading of shares in small firms, with some 300 companies quoted. Areas like Cambridge and the M4 motorway corridor have led the way as havens of high-technology enterprise, while the UK has pioneered the trend in management buy-outs: there have been more than 400 in the past three years.

Some of these phenomena have lately spread to continental Europe. More than 70 companies have obtained quotations on France's unlisted market since it was established in early 1983, and many have performed spectacularly well. The Dutch "parallel" market features about 40 firms.

In West Germany, though equity financing is scarce, clusters of new high-technology companies are springing up in West Berlin, around Munich and in Baden-Württemberg. In Italy, which has long had a flourishing small business sector, several groups of managers have spun off from larger companies such as Olivetti and Fiat to set up on their own.

Europe's new-found enthusiasm for entrepreneurs owes much to experience in the U.S., where it is estimated that as many as two-thirds of all net new jobs created in the early 1970s were in small businesses. Just as important is the stimulus to innovation from small American companies, which have proved highly effective at diffusing technology, turning bright ideas into products much more rapidly than large, bureaucratic organisations.

Europe's lag does not seem due to any inability to create new firms. Indeed, compared with the 600,000 businesses formed in the U.S. in 1983, 170,000 were created in Britain and an estimated 150,000 in West Germany, roughly equivalent in relation to population. The problem, rather, lies in getting them to develop.

In some countries, the odds are stacked against new businesses right from the start. In Belgium, it can be a real challenge just to become incorporated, as EVCA has found to its chagrin. In spite of a helping hand from King Baudouin himself, it has waited more than 18 months for official publication of its articles of association, without which it could not even open its own bank account.

In West Germany, which has many thousands of small family-owned companies, local chambers of commerce and banks do a lot to help new businesses get started. The Federal Govern-



ment and several states also provide generous development subsidies to small high-technology firms. Many of the new ventures are in computer software, which involves only a small investment in fixed assets.

But the German legal system frowns on risk-taking; owners of family businesses which go bankrupt are subject to unlimited liability for up to 25 years. If your company fails, you lose your whole reputation," says Dr Albrecht Angstenberger, research director of Leitron, a two-year-old German maker of advanced printed circuit boards. "It's very hard to start again."

U.S. experience suggests, though, that a high casualty rate is a key element of a flourishing entrepreneurial economy. One study has found that American firms with fewer than 20 employees have less than a 40 per cent chance of surviving more than four years.

In Italy, rules which exempt employers with fewer than 35 staff from social security contributions are blamed for discouraging companies from getting bigger. Those which do, often split themselves in two or are forced to merge with larger concerns.

Finding the right sales and distribution channels can also be a struggle. "There is far more clarity about markets and business statistics in the U.S.—it's far simpler there to find out who to sell to," says Geoff Taylor, managing director of Si Ventures, Britain's oldest and largest venture capital fund.

Large European companies are often criticised for not doing more to help small entrepreneurs. Though companies including Pilkington, Shell, Siemens, Philips and Olivetti have joined the ranks of venture capitalists, relatively few have made a point of including newly-formed firms among their suppliers and sub-contractors.

"It's no big deal for a company like Thorn EMI or Ferranti to invest half a million pounds in the equity of a small company," says Taylor. "It's a much bigger risk for them to buy sub-assemblies from an unknown supplier." European governments also like to stick with long-established suppliers.

In the U.S., by contrast, the federal government sets minimum quotas for orders from small businesses; they supplied almost 20 per cent of the Pentagon's \$124bn procurement last year. In the U.S., telecommunications

has also been a fertile sector for start-up companies backed by venture capital. But according to Malcolm Ross of consultants Arthur D. Little, there is almost no scope for such activity in continental Europe because national telecommunications monopolies exclude all but a few favoured suppliers from their markets.

However, it is also widely conceded that much of the blame lies with European entrepreneurs, who are often far less experienced and less motivated than those in the U.S. Studies in the UK have consistently found that high-technology start-ups fail mostly because of basic management errors such as under-estimating development times, giving product engineering priority over marketing or inadequate financing.

A common diagnosis is that too few proven senior managers are leaving the status and security of jobs with big companies to set up on their own.

Robb Wilmut, chairman of Britain's ICL, argues that many European managers who leave large firms to set up on their own do so because they only want to run small businesses, not to get rich by growing fast. "Small firms may create jobs,

but only big companies create wealth," he says.

A second, widely blamed constraint to growth is the marked aversion of many small businessmen, especially on the Continent, to surrendering control of their companies to gain equity capital for expansion. "Many people would rather own 100 per cent of a small company than 20 per cent of a big one," says Dr Carlo de Benedetti, chairman of Olivetti.

This attitude is particularly prevalent in West Germany, where a shortage of equity capital after the war left most companies with no option but to rely heavily on bank borrowing. Though equity issues have slowly gained popularity in the past two years, Germany still has only about 440 quoted companies, and trading on the Frankfurt house is limited to two hours a day.

Some venture capitalists say they are reluctant to invest unless there is a variety of proven "exit" mechanisms, notably easy access to equity markets, to enable them to realise their investments quickly. In fact, only a small fraction of venture-backed companies go public in the U.S.—the peak was 120 in 1983; but the existence of a

vigorous stock market provides psychological reassurance as well as a yardstick to value the many firms which make private share placements or are taken over.

One solution under study is a proposal to create a Europe-wide over-the-counter market, modelled on the U.S. Nasdaq, on which Ecu-denominated shares could be traded. A feasibility study by ELBASociates, a Geneva-based financial services firm, is due to be published later this year.

The scheme faces many obstacles, however. Among them are national exchange controls, a ban on German citizens holding Ecu-denominated assets and resistance from some financial institutions, notably in London, which fear that it would undermine their securities trading business.

Though its progress so far has been limited, Europe's drive to create more entrepreneurship has been blessed by exceptionally favourable circumstances in the past three years: a recovery, albeit modest, in several European economies, a proliferation of government support schemes and perhaps most important—buoyant stock markets.

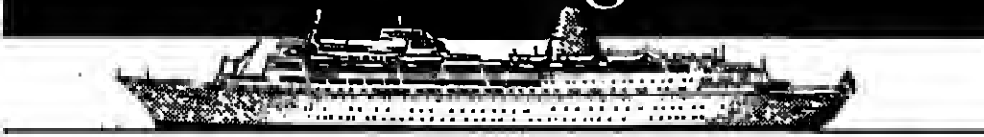
But recent problems at companies such as Britain's Sinclair Research and Acorn Computers, provide a sharp reminder that high-fliers—and investor confidence—can be grounded overnight. "I foresee a hell of a change in the climate if we have a couple of years of falling share prices," says Robin Hodgson, managing director of Granville Securities of London, a licensed securities dealer and fund manager.

How well-equipped Europe is to deal with a patch of turbulence is uncertain, and some wonder whether management resources are up to the task. Bert Twaalfhoven, an ebullient Dutch entrepreneur who is president of Indiviers, a cluster of small industrial companies, claims that only a handful of venture capital firms in the Netherlands really understand the problems of running small businesses.

Optimists argue that Europe's budding entrepreneurs will only prosper in the long run if they learn to survive a crisis. For a lesson in how to do it, they need only look—once more—to the U.S., many venture capitalists there are now struggling to cope with companies which have gone sour and have adversely curtailed their new investments.

This is the second article in this series; the first appeared on June 17 and the next will appear on June 21.

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## COMMODITIES AND AGRICULTURE

## Australia and U.S. in talks on grain sales

By Our Commodities Staff

AUSTRALIAN AND U.S. grain officials met in Washington yesterday to discuss the impact of the recent American grain export enhancement programme.

The U.S. Department of Agriculture is expected to announce this week a further step in the export programme, following similar lines to the big cut-price wheat sale to Algeria last month. Egypt and Morocco have been mentioned as two possible target areas.

Although the U.S. programme was aimed primarily at recapturing markets lost to the European Community, Australia fears that it may be one of the main sufferers. It is worried that the EEC, having been forced out of some markets by merely turning to other areas traditionally served by other grain exporting countries, including Australia. Mr. Bob Hawke, the Australian Prime Minister, said in Canberra that Australia will seek to have U.S. efforts aimed at retalia- tion against the European Community's export subsidies dealt with in a broader framework.

Meanwhile Australian Wheat Board announced it had sold a further 400,000 tonnes of wheat to China for delivery this year. The sale is the second one since a long-term agreement between Australia and China expired at the end of 1984. In April this year Australia said it had sold 500,000 tonnes of wheat to China.

The Chinese, while continuing to import wheat, are stepping up their exports of feedgrains. Reuter reported from Peking that China exported 956,000 tonnes of maize to South Korea during the first four months of 1985, overtaking the U.S. as the main supplier.

In Moscow the U.S. and the Soviet Union agreed to resume agricultural co-operation, Mr. Daniel Amstutz, the U.S. agriculture under-secretary, announced.

## Dollar's decline lifts gold price

By JOHN EDWARDS, COMMODITIES EDITOR

GOLD CONTINUED its recent upward surge yesterday boosted by a further weakening in the value of the dollar and the reduction in U.S. interest rates. The London gold bullion spot price gained \$5.50 to close at \$324.75 an ounce, its highest level for more than a month.

The London free market price of platinum jumped by \$8.90 to \$279.15 an ounce. Silver was also sharply higher in dollar terms. The spot price was lifted by 9.4 cents to \$50.44 an ounce at the London bullion exchange, but the sterling equivalent was only a modest 2.3p up at 499.65p.

The rise in the value of sterling compared with the dollar has a generally depressive influence on base metal prices on the London Metal Exchange. Aluminium, nickel, tin and zinc values were all marked lower. But copper and

lead resisted the downward trend. Copper was held steady by a renewed "squeeze" on supplies immediately available to the market, which narrowed the gap between the cash price and the three months' quotation on the higher grade market. The former trend was helped by a rise in early dealings on the New York copper market.

Charles Barker City, London based advertising and public relations agency, announced yesterday that it has been appointed by a number of copper producers to prepare detailed proposals for a generic campaign to improve the "image" of copper and stress its importance as an industrial raw material. If the proposals are accepted between \$6m and \$10m will be spent over three to five years in promoting copper in four countries—France, Germany, Italy and the UK.

## European zinc quotation lowered to \$880 a tonne

BY OUR COMMODITIES EDITOR

THE MOVE to cut the European zinc producer price by \$50 to \$880 a tonne initiated by Metallgesellschaft last week was followed by the rest of the producers. As a result the Metal Bulletin quotation was formally lowered to \$880—the second reduction in less than a month.

Although the downward trend in LME zinc values continued yesterday, reflecting the rise in the value of sterling, the cash price moved back up to a slight premium over three months' quotation following a renewed scarcity of immediately available supplies.

Preussag, West German smelters, announcing that it was cutting its official producer price to \$880.

Weekly metal prices supplied by Metal Bulletin:

ANTIMONY: European free market, 99.6 per cent, \$ per tonne, in warehouse, 2,650-2,750.

BISMUTH: European free market, min 99.99 per cent, \$

per lb, tonne lots in warehouse, 3,900-4,200.

CADMIUM: European free market, min 99.99 per cent, \$ per lb, in warehouse, ingots, 0.67-0.73, sticks, 0.73-0.75.

COBALT: European free market, 99.5 per cent, \$ per lb, in warehouse, 11.25-11.35.

MERCURY: European free market, min 99.99 per cent, \$ per flask, in warehouse, 287-297.

MOLYBDENUM: European free market, drummed molybdenic oxide, \$ per lb, in warehouse, 1.05-1.10.

SELENIUM: European free market, min 99.5 per cent, \$ per lb, in warehouse, 6.65-7.15.

TUNGSTEN ORE: European free market, standard min 85 per cent, \$ per tonne unit W/O, cif, 50-55.

VANADIUM: European free market, min 98 per cent V<sub>2</sub>O<sub>5</sub>, other sources, \$ per lb V<sub>2</sub>O<sub>5</sub>, cif, 2.05-2.10.

URANIUM: Nuxeo exchange value, \$ per lb U<sub>3</sub>O<sub>8</sub>, 15.00.

## Brazil may cut orange juice minimum

By Our Commodities Staff

BRAZIL MAY cut its minimum export price for frozen orange juice from \$1,800 a tonne to \$1,500, according to reports circulating in the New York market.

The rumours caused a sharp fall in the New York futures market on Monday night but values steadied a little in early trading yesterday.

WEST GERMANY was well clear at the top of the European market last year, followed by Czechoslovakia with 2,444 and East Germany with 2,015. The European total was 23,618.

INDONESIA plans to expand its aluminium smelter plant in North Sumatra to 400,000 tonnes from 225,000 tonnes. The expansion project is expected to be completed in 1990.

GUAYANA is aiming to diversify its banana production away from its current dependence on cashew nut exports with technical assistance from Reynolds Metals Company of the U.S., according to Mr. Carl Greenidge, the Finance Minister.

THAILAND is to ask the U.S. and Japan to buy additional non-quota sugar at premium prices. Senior Thai government delegations will seek high-level talks with the U.S. for possible additional imports of its raw sugar outside the \$5,580 tonne export quota Thailand received for the year ending September 30.

CHINA has assured Malaysia it will make purchases of rubber this year near 1984's level of 115,000 tonnes. Malaysia recently asked China to step up direct purchases which have fallen to between 8,000 and 4,000 tonnes a month since February compared with 8,000 to 9,000 a month last year.

Traders said China had bought more rubber from Thailand than Malaysia in the last four months.

## Mixed outlook for steam coal trade

BY GERARD McCLOSKEY

IT IS already clear that 1985 is going to be a year of extremely mixed fortunes in steam coal trading in Europe. For Poland and the UK shipments are going to be well below par while for almost all other steam coal shippers 1985 will show a marked improvement on last year, at least as far as tonnages are concerned.

For prices, the misery is shared, with no sign yet that levels are going to recover from the \$41 a tonne level for South African benchmark coal.

At the start of the year prices were running at \$43.50 a tonne (fob) but fell back by \$2 when the UK miners went back to work. With a period of slack demand ahead the \$41 spot price looks difficult to sustain.

One curious development has emerged in recent weeks—the passing of the mantle of price stability from the UK to South Africa and Australia together. In light of the higher ocean freight charges for

transporting Australian coal to Europe and much higher mining costs, the development would seem to defy economic logic. But recent prices for Australian material have been more than matched for South African prices.

## INTERNATIONAL COAL REPORT

## SPOT STEAM COAL MARKER

## PRICE

June, 1985 \$41-42

May, 1985 \$42-42

June, 1984 \$42.50

(South African 10,000 Btu/lb 0.4% sulphur, fob, Rotterdam)

Some explanation for these price levels lies in the freight advantage of some of the very large vessels now plying the Australia-Continental trade with a 150,000-tonne cargo—Australia's largest-ever steam coal shipment—having recently been loaded at Abbots Point for the Danish utility buyer Elkraft.

Another explanation lies in the sheer volume of coal now moving out of Australia. A record 58.2 million tonnes is expected to be exported by the end of the Australian financial year on June 30, up from 56.5 million tonnes in the same 1983-84 period. In order to find a market for this tonnage the Australian shippers are having to accept buyers' demands for lower prices. But they run a very real risk that the Canberra government will intervene and withhold export permits if the prices get too low.

In contrast with Australia, relatively modest tonnage increases are expected for South African shipments this year, talking exports to around 40m tonnes. And much of this is already sold.

Although some growth in demand is expected in Japan and the Far East during the next few months, it is so far off that it has not yet been switched. Expanding consumption on the back of 14,000 megawatts of new coal capacity due

to come on line among European electricity utilities this year, is sucking in steam coal in unprecedented volumes. While some of this volume—which represents over 25m tonnes of annual coal consumption—will be replacement coal, some will be designed for burning domestically-produced coal (such as the Drax extension in the UK), many were built solely to take imported coal alone.

An expected ragged export performance by the National Coal Board and the recent revelation that Polish coal exporter Wegeloksa may be 7m tonnes down on 1984's 43m tonnes of exports—all the deficit being in steam coal shipments—has presented many coal salesmen with a much larger European market than they had expected only months ago.

Gerard McCloskey is editor of the FT International Coal Report.

## Pig disease scheme attacked

BY A CORRESPONDENT

PIG PRODUCERS are up in arms about a Ministry of Agriculture scheme to eradicate swine fever, which they say is a waste of money.

Farmers based in Suffolk, one of the main pig producing regions in the UK, have formed a protest group to try and end the costly programme aimed at wiping out Aujeszky's disease—a kind of porcine herpes.

Although farmers themselves voted in a poll in favour of the producer-financed eradication scheme over two years ago, many now claim that they were misled about the cost by the Government. They say the vote would have gone very differently if the full facts had been known.

The Pig Disease Eradication Fund, set up to administer the scheme, has raised £4m a year through its sales levy of 30p per pig, but this has proved quite insufficient to meet the cost of compensation to producers whose diseased animals have had to be slaughtered.

As a result the Fund has an overdraft of £4m. This means pig producers will have to go to the bank for many years to come.

With the pig market entering the downside of its notorious price cycle after peaking last autumn this is an increasingly burdensome drain on profitability, opponents of the scheme claim.

The angry pig farmers point out that when they were first asked about funding eradication they were told it might cost £5m and prove a relatively short-lived affair. But it has already cost many times that and there are growing doubts as to whether the disease, which in the past has flared up and then receded, can be completely wiped out.

Only last month, Aujeszky's disease broke out in a large number of casualties when 2,700 pigs from one herd had to be slaughtered. The House of Commons select committee on agriculture recently published a report on

the troubled Aujeszky's programme which urged the Government to look sympathetically at producer demands for help.

The pig lobby wants that to take the form of Government cash to help write off the eradication company's overdraft—but so far the Ministry of Agriculture has refused to sanction such a grant for a project which it argues was entered into voluntarily by the pig industry. That position was reaffirmed this week by Mr. Michael Jopling, the Agriculture Minister, when he met Fund representatives.

The immediate aim of the new protest group is therefore to try and organise a new poll of producers to overrule the original decision.

But that campaign is likely to be the work of a long time. Many will stoutly defend the need to stamp out Aujeszky's disease, arguing that maintaining the health of the national pig herd is vital.

## Glut threatens Indonesian rice programme

By Our Commodities Staff

JAKARTA — Indonesia, after achieving record rice output last year, is facing storage and price problems which threaten to jeopardise its rice programme and rice production.

Rice production rose 6.4 per cent in 1984 to 25.8m tonnes, turning Indonesia from the world's highest rice exporter to a net importer. The country's five-year plan, started last year, projects further gains in output and Mr. Ardhana Afandi, the Agriculture Minister, expects output to rise by 4 per cent this year.

The export programme, however, millions of farmers who are finding it hard to sell their crops may turn to other more profitable crops when they see their income falling.

This has prompted the government to need to stamp out Aujeszky's disease, arguing that maintaining the health of the national pig herd is vital.

President Suharto has made increasing rice output a cornerstone of his food policies.

## LONDON MARKETS

## BASE METALS

LME prices supplied by Amalgamated Metal Trading

## ALUMINIUM

Official closing (am): Cash 795.5 (1,135-20); three months 810.5 (1,135-20); settlement 810.5 (1,135-20). Turnover: 11,475 tonnes.

## COPPER

Official closing (am): Cash 1,113.5 (1,113-5); three months 1,135.5 (1,135-5); settlement 1,135.5 (1,135-5). Turnover: 28,200 tonnes. U.S. Producer prices: 95-70 cents per pound.

## LEAD

Official closing (am): Cash 1,113.5 (1,113-5); three months 1,135.5 (1,135-5); settlement 1,135.5 (1,135-5). Turnover: 28,200 tonnes. U.S. Producer prices: 95-70 cents per pound.

## NICKEL

Official closing (am): Cash 4,375.0 (4,375-0); three months 4,375.0 (4,375-0); settlement 4,375.0 (4,375-0). Turnover: 1,500 tonnes.

## TIN

Official closing (am): Cash 4,375.0 (4,375-0); three months 4,375.0 (4,375-0); settlement 4,375.0 (4,375-0). Turnover: 1,500 tonnes.

## ZINC

Official closing (am): Cash 4,375.0 (4,375-0); three months 4,375.0 (4,375-0); settlement 4,375.0 (4,375-0). Turnover: 1,500 tonnes.

## MAIN PRICE CHANGES

In tonnes unless otherwise stated

## METALS

Aluminium: 21100-21100 (21100-0). Copper: 11135-11135 (11135-0). Lead: 11135-11135 (11135-0). Nickel: 4375-4375 (4375-0). Tin: 4375-4375 (4375-0). Zinc: 4375-4375 (4375-0).

## GOLD

Gold rose 5p to an ounce from Monday's close in the London bullion market yesterday to finish at \$324.75. The price was up 1.1p on the day and a low of \$319.75. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## SILVER

Silver was held steady at 499.65p on the London bullion market yesterday at 499.65p. The price was up 1.1p on the day and a low of 498.55p. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## PLATINUM

Platinum was held steady at \$279.15 an ounce on the London bullion market yesterday at \$279.15. The price was up 8.9p on the day and a low of \$270.25. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## RUBBER

Rubber was held steady at \$17.00 a tonne on the London bullion market yesterday at \$17.00. The price was up 0.1p on the day and a low of \$16.90. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## COFFEE

Coffee was held steady at \$2.50 a tonne on the London bullion market yesterday at \$2.50. The price was up 0.1p on the day and a low of \$2.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## SUGAR

Sugar was held steady at \$12.00 a tonne on the London bullion market yesterday at \$12.00. The price was up 0.1p on the day and a low of \$11.90. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## WHEAT

Wheat was held steady at \$1.50 a tonne on the London bullion market yesterday at \$1.50. The price was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## BARLEY

Barley was held steady at \$1.00 a tonne on the London bullion market yesterday at \$1.00. The price was up 0.1p on the day and a low of \$0.90. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## INDICES

Financial Times

June 1985 100.00 (100.00-0). July 1985 100.00 (100.00-0). August 1985 100.00 (100.00-0). September 1985 100.00 (100.00-0). October 1985 100.00 (100.00-0). November 1985 100.00 (100.00-0). December 1985 100.00 (100.00-0).

## REUTERS

June 1985 100.00 (100.00-0). July 1985 100.00 (100.00-0). August 1985 100.00 (100.00-0). September 1985 100.00 (100.00-0). October 1985 100.00 (100.00-0). November 1985 100.00 (100.00-0). December 1985 100.00 (100.00-0).

## MOODY'S

June 1985 100.00 (100.00-0). July 1985 100.00 (100.00-0). August 1985 100.00 (100.00-0). September 1985 100.00 (100.00-0). October 1985 100.00 (100.00-0). November 1985 100.00 (100.00-0). December 1985 100.00 (100.00-0).

## DOW JONES

June 1985 100.00 (100.00-0). July 1985 100.00 (100.00-0). August 1985 100.00 (100.00-0). September 1985 100.00 (100.00-0). October 1985 100.00 (100.00-0). November 1985 100.00 (100.00-0). December 1985 100.00 (100.00-0).

## COCOA

Cocoa was held steady at \$1.50 a tonne on the London bullion market yesterday at \$1.50. The price was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## SUGAR

Sugar was held steady at \$12.00 a tonne on the London bullion market yesterday at \$12.00. The price was up 0.1p on the day and a low of \$11.90. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## WHEAT

Wheat was held steady at \$1.50 a tonne on the London bullion market yesterday at \$1.50. The price was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## BARLEY

Barley was held steady at \$1.00 a tonne on the London bullion market yesterday at \$1.00. The price was up 0.1p on the day and a low of \$0.90. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## RUBBER

Rubber was held steady at \$17.00 a tonne on the London bullion market yesterday at \$17.00. The price was up 0.1p on the day and a low of \$16.90. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## COFFEE

Coffee was held steady at \$2.50 a tonne on the London bullion market yesterday at \$2.50. The price was up 0.1p on the day and a low of \$2.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## SUGAR

Sugar was held steady at \$12.00 a tonne on the London bullion market yesterday at \$12.00. The price was up 0.1p on the day and a low of \$11.90. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## OIL

Oil prices were held steady on the London market yesterday. The price of oil was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## GAS

Gas prices were held steady on the London market yesterday. The price of gas was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## POTATOES

Potatoes were held steady on the London market yesterday. The price of potatoes was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## PORK

Pork prices were held steady on the London market yesterday. The price of pork was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

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## U.S. MARKETS

## CRUDE OIL

Crude oil prices were held steady on the New York market yesterday. The price of crude oil was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## GAS

Gas prices were held steady on the New York market yesterday. The price of gas was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## POTATOES

Potatoes were held steady on the New York market yesterday. The price of potatoes was up 0.1p on the day and a low of \$1.40. Finding was in the value of the dollar and a reduction in U.S. interest rates.

## PORK



## CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar's fall boosts pound

Sterling rose in currency markets yesterday to equal its highest level since March 1984. Its exchange rate index finished at 80.5 up from an opening level of 79.9 and Monday's close of 79.7. The pound's firmer trend was not strong gains in the dollar with major European currencies and the Japanese yen.

Pressure may now increase on UK clearing banks to reduce their base rates but for the time being it was the relatively high level of UK rates which provided the backbone of support. Sterling rose to £1.2999/1.3000, a rise of 2 cents from Monday and against the dollar to DM 3.9350, compared with DM 3.9150. It was also higher against the Swiss at Sfr 3.3000 from Sfr 3.2825 and FF 22.0250 from FF 21.8750. Against the yen it closed at ¥322 from ¥318. The dollar fell quite sharply in reaction to a cut in prime rates to 9 1/2 per cent and a reduction in broker loan rates to 8 per cent. Confidence was further undermined by an announcement that the U.S. Treasury had fined four

major banks in excess of \$1m for currency law violations and that a further 140 banks were under investigation. In addition a surprise fall of 18.7 per cent in U.S. housing starts undermined just about the current pace of U.S. economic growth.

Against this background and growing expectations of a further cut in the U.S. discount rate, the dollar retreated in fairly thin trading. Reaction towards tomorrow's second quarter GNP flash estimate is likely to be rather unpredictable.

since the dollar's current value already discounts a further slide down in the pace of U.S. economic growth. The dollar closed at DM 3.9280 down from DM 3.9615 and ¥247.50 from ¥249.65. Against the Swiss franc it fell to Sfr 3.2825 from Sfr 3.2745 and FF 22.0250 from FF 22.0450. On Bank of England figures, the dollar's exchange rate index fell to 144.2 from 145.3.

**D-MARK** — Trading range against the dollar in 1985 is 2.4510 to 2.9730. May average

## EMS EUROPEAN CURRENCY UNIT RATES

	Unit	Current rate	% change from 1984	% change from 1983	Bank % divergence
Belgian franc	100	44.2256	+0.79	+0.94	+1.2471
French franc	100	6.5596	+0.00	+0.00	+0.0000
German mark	100	3.3757	+0.00	+0.00	+0.0000
Italian lira	1,000	2.3636	+0.00	+0.00	+0.0000
Spanish peseta	100	166.6371	+0.00	+0.00	+0.0000
Portuguese escudo	100	200.4824	+0.00	+0.00	+0.0000
Irish punt	100	0.773366	+0.00	+0.00	+0.0000
British pound	100	103.7562	+0.00	+0.00	+0.0000

Changes are for 1985, therefore positive change denotes a weak currency. Adjustments calculated by Financial Times.

## POUND SPOT-FORWARD AGAINST POUND

June 18	Spot	One month	Three months	Six months	One year
U.K.	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000
Canada	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000
France	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596
Germany	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757
Italy	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636
Spain	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371
Portugal	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824
Switzerland	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366
Japan	322.00-322.00	322.00-322.00	322.00-322.00	322.00-322.00	322.00-322.00
Australia	1.49-1.49	1.49-1.49	1.49-1.49	1.49-1.49	1.49-1.49
New Zealand	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50
South Africa	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50
U.A.E. Dirham	4.74-4.74	4.74-4.74	4.74-4.74	4.74-4.74	4.74-4.74

Beign rate is for convertible francs. Financial Times 80.00-80.10. Six-month forward dollar 2.77-2.72 p.m. 12-month 4.45-4.30 p.m.

## DOLLAR SPOT-FORWARD AGAINST DOLLAR

June 18	Spot	One month	Three months	Six months	One year
U.K.	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000
Canada	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000
France	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596
Germany	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757
Italy	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636
Spain	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371
Portugal	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824
Switzerland	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366
Japan	322.00-322.00	322.00-322.00	322.00-322.00	322.00-322.00	322.00-322.00
Australia	1.49-1.49	1.49-1.49	1.49-1.49	1.49-1.49	1.49-1.49
New Zealand	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50
South Africa	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50
U.A.E. Dirham	4.74-4.74	4.74-4.74	4.74-4.74	4.74-4.74	4.74-4.74

Beign rate is for convertible francs. Financial Times 80.00-80.10. Six-month forward dollar 2.77-2.72 p.m. 12-month 4.45-4.30 p.m.

## OTHER CURRENCIES

June 18	Spot	One month	Three months	Six months	One year
Argentina peso	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000
Australia dollar	1.49-1.49	1.49-1.49	1.49-1.49	1.49-1.49	1.49-1.49
Canada dollar	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000	1.7000-1.7000
France franc	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596
Germany mark	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757
Italy lira	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636
Japan yen	322.00-322.00	322.00-322.00	322.00-322.00	322.00-322.00	322.00-322.00
New Zealand dollar	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50
South Africa rand	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50	1.50-1.50
U.A.E. Dirham	4.74-4.74	4.74-4.74	4.74-4.74	4.74-4.74	4.74-4.74

Beign rate is for convertible francs. Financial Times 80.00-80.10. Six-month forward dollar 2.77-2.72 p.m. 12-month 4.45-4.30 p.m.

## EXCHANGE CROSS RATES

June 18	Spot	One month	Three months	Six months	One year
Pound Sterling	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000	1.2999-1.3000
U.S. dollar	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366
Deutsche mark	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757	3.3757-3.3757
Japanese yen	322.00-322.00	322.00-322.00	322.00-322.00	322.00-322.00	322.00-322.00
French franc	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596	6.5596-6.5596
Swiss franc	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366
Italian lira	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636	2.3636-2.3636
Spanish peseta	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371	166.6371-166.6371
Portuguese escudo	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824	200.4824-200.4824
Irish punt	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366	0.773366-0.773366
British pound	103.7562-103.7562	103.7562-103.7562	103.7562-103.7562	103.7562-103.7562	103.7562-103.7562

Beign rate is for convertible francs. Financial Times 80.00-80.10. Six-month forward dollar 2.77-2.72 p.m. 12-month 4.45-4.30 p.m.

## EURO-CURRENCY INTEREST RATES (Market closing rates)

June 18	Sterling	U.S. dollar	Deutsche mark	Japanese yen	French franc	Italian lira	Spanish peseta	Portuguese escudo	Irish punt	British pound
Short-term	12 1/2-13 1/2	5 1/2-7 1/2	3 1/2-5 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2
Three months	12 1/2-13 1/2	5 1/2-7 1/2	3 1/2-5 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2
Six months	12 1/2-13 1/2	5 1/2-7 1/2	3 1/2-5 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2
One year	12 1/2-13 1/2	5 1/2-7 1/2	3 1/2-5 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2	1 1/2-3 1/2

Asian \$ (floating rates in Singapore): Short-term 7 1/2-9 1/2 per cent; seven days 7 1/2-9 1/2 per cent; one month 7 1/2-9 1/2 per cent; three months 7 1/2-9 1/2 per cent; six months 7 1/2-9 1/2 per cent; one year 7 1/2-9 1/2 per cent. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

## MONEY MARKETS

## London rates slightly easier

Interest rates eased slightly on the London money market yesterday as sterling approached the \$1.30 level against a weakening dollar on the foreign exchange. Sentiment was also encouraged by expectations that the U.S. Federal Reserve will cut its discount rate by another 1/2 per cent to 7 per cent towards the end of the week. The U.S. central bank had fallen to 6 1/2 per cent. Earlier in the day Morgan Guaranty became the first major U.S. bank to reduce its prime rate to 8 1/2 per cent from 9 per cent.

Although lower U.S. interest rates have renewed hopes of a reduction in London rates a note

of caution continues to overhang the market ahead of the meeting of Opec ministers on July 5 and the next UK money supply figures on July 8.

Three-month sterling interbank declined to 12 1/2-13 1/2 per cent from 12 1/2-13 1/2 per cent, and discount houses buying rates for

three-month bank bills to 11 1/2 per cent from 11 1/2 per cent.

The Bank of England initially forecast a market surplus of £100m, but changed this to a shortage of £50m before lunch and to a shortage of £100m in the afternoon.

The authorities did not operate in the market in the morning, but in the afternoon gave help of £50m through outright purchases of £50m bank bills in band 2 (15-33 days maturity) at

12 1/2 per cent, and £5m bank bills in band 4 (44-91 days) at 12 per cent.

Bills maturing in official hands, repayment of late sums and a take-up of Treasury bills decreased £22m, while the renewal of Treasury facilities secured by gilt edged stock and export credits absorbed a net £20m. Those were offset by Exchequer transactions adding £37m to liquidity and a fall in the note circulation of £5m.

electric scheme.

The rate for one-month money applicable to the repurchase agreements on gilts and export credits was 12 1/2 per cent.

In the afternoon the Bank of England also announced another temporary facility available to the banking system of up to £100m from June 24 to July 31. This is to ease shortages caused by a call of £12m on shareholders for the second instalment on British Telecom shares.

## MONEY RATES

June 18

Overnight	One month	Three months	Six months	One year
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2

## LONDON MONEY RATES

June 18

Overnight	One month	Three months	Six months	One year
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2

## Discount Houses Deposit and Bill Rates

June 18

Overnight	One month	Three months	Six months	One year
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2
0.5-0.5	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2	10 1/2-10 1/2

## FT LONDON INTERBANK FIXING

(11.00 a.m. June 18)

Three months	One year
12 1/2-13 1/2	10 1/2-10 1/2
12 1/2-13 1/2	10 1/2-10 1/2
12 1/2-13 1/2	10 1/2-10 1/2
12 1/2-13 1/2	10 1/2-10 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

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bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

bid 7 1/2 offer 7 1/2

## FINANCIAL FUTURES

## Upward trend

Interest rate contracts were very strong on the London International Financial Futures Exchange yesterday as hopes continued to grow of a cut in the U.S. Federal Reserve's discount rate later this week. This is expected to follow Thursday's flash estimate of U.S. second quarter gross national product, providing the figure confirms that growth in the period in question has not recovered strongly after a disappointing first quarter. An overnight rate of 7 per cent for Federal funds in New York added to the bullish mood of the market, and this was further encouraged when the rate fell to 6 1/2 per cent.

Morgan Guaranty was quickly followed by other major banks in cutting its prime rate by 1/2 per cent to 9 1/2 per cent, while the slowdown in economic growth received further confirmation by a fall of 13.7 per cent in May U.S. housing starts.

September Eurodollars closed at the day's high of 92.38 compared with 92.30 previously, after opening at 92.25. U.S. Treasury bonds for September delivery rose to 78.50 from







**MINES—Continued**

**"Recent Issues" and "Rights" Page 36**

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**For Options see Unit Trusts**



## LONDON STOCK EXCHANGE

## MARKET REPORT

## Cash shortages again limit turnover but gilts respond to rise in sterling

## Account Dealing Dates

\*First Declared Last Account Dealings Date  
June 3 June 13 June 24  
June 17 June 27 June 28  
June 17 June 27 June 28  
June 17 June 27 June 28

Cash shortages continued to restrict business in London markets yesterday and, although the undertone remained firm, only gilt-edged securities recorded any appreciable change. Several pointers emerged to encourage potential investors in the latter areas including a strong exchange rate, which mainly reflected renewed dollar weakness, and widespread speculation of lower U.S. interest rates.

A major U.S. bank followed Southwest St. Louis by cutting the rate charged to prime borrowers by 1 per centage point to 9 1/2 per cent. Hopes were also high that the Federal Reserve would soon reduce its discount rate in order to stimulate a flagging economy; the "flash" forecast of GNP will be released tomorrow afternoon.

With some operators taking time off for the start of Royal Ascot, demand for gilt-edged stocks was insufficient to test the authorities' top levels. Late in the session, however, partly by Treasury 10 per cent 2004 edged up to 30 1/2, the price the Government broker is assumed to be the market, it bid longer-dated gilts finally achieved gains extending to 1 1/2 but the shorts improved only marginally on the day. In contrast, index-linked gilts remained out of favour and gave a little more ground.

Most leading equities were content to consolidate around the overnight prices as investors bided off in front of tomorrow's debut of Abbey Life. The generally subdued trading conditions were in part reflected by the fact that the negative performance on Monday and the session was relieved only by a flurry of bid speculation in Allied Lyons and Distillers. The former was again heavily traded and rose to 22 1/2 before closing a net up at 21 1/2; Hanson Trust and Amheuser-Besch were mentioned as possible bidders but neither regarded both as unlikely contenders.

Long considered a prime takeover target, Distillers is reported to be in the light of the thoughts that, in the light of the shares being re-valued, the Grand Metropolitan may be looking to buy the firm. The former was again about to raise prices for generic cigarettes in the U.S. The combined strength of these three stocks supported the index, which rose but in the after-hours' business the index moved lower to close 2 1/2 down on balance at 3585.8.

## Midland Bank rise

Midland claimed most attention among the clearing banks, rising 15 to 37 1/2 on vague rumours of a bid from Hanson Trust. Barclays, however, softened 4 to 37 1/2 with sentiment seemingly unshaken by 3 to the good at 13 1/2.

news of a senior official's dismissal. Stockbrokers Wood Mackenzie's optimistic review of Composite Insurance attracted buyers to the sector and gains ranging to 7 were soon recorded. Later, prices drifted back on lack of follow-through support and sporadic profit-taking to close easier for choice. Sun Alliance, for example, retreated from an initial 45 1/2 to finish 5 down at 45 1/2, while Royal ended 3 off at 65 1/2, after 65 1/2.

Arthur Bell attracted yet another active two-way business, closing 3 cheaper at 27 1/2—still 40 above the hostile share-exchange bid from Guinness. Fallow distillers jumped 10 to 9 1/2, while Breweries gained 4 more to 13 1/2. Breweries gained ground, partly reflecting the current interest in Allied Lyons. In order to stimulate a flagging economy, the "flash" forecast of GNP will be released tomorrow afternoon.

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## FINANCIAL TIMES STOCK INDICES

	June 18	June 17	June 16	June 15	June 14	June 13	June 12	June 11	Year ago
Government Secs.	81.95	81.75	81.65	81.45	81.65	81.55	81.55	81.55	73.20
Fixed Interest	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	83.00
Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8
Ord. Div. Yield	4.70	4.69	4.78	4.78	4.69	4.69	4.69	4.69	4.78
Earnings, Yld. (Full)	11.75	11.75	11.81	11.80	11.75	11.75	11.75	11.75	11.05
P/E Ratio (Full)	10.39	10.48	10.34	10.35	10.48	10.48	10.48	10.48	10.86
Total Bargains (Est.)	22,666	22,331	22,667	21,181	21,181	21,181	21,181	21,181	21,181
Equity turnover (m)	—	—	—	—	—	—	—	—	—
Equity bargain (m)	—	—	—	—	—	—	—	—	—
Share traded (m)	—	—	—	—	—	—	—	—	—

10 am 991.1, 11 am 982.2, Noon 980.8, 1 pm 985.5, 2 pm 988.2, 3 pm 985.3

Seals 100/05, 25 pence 15/28, 100/05, 100/05, 100/05, 100/05, 100/05, 100/05, 100/05, 100/05, 100/05

Gold Mines 12/10/85, 25 pence 15/28, 100/05, 100/05, 100/05, 100/05, 100/05, 100/05, 100/05, 100/05

Latest index 01-246 8022, Ordinary 1/7/85, "Hill-10.08.

## HIGHS AND LOWS

## S.E. ACTIVITY

## INDICES

	High	Low	Since Comp.	High	Low	Daily	High	Low	High	Low
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.4	40.13	40.13	138.4	138.4	138.4	138.4	138.4
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Fixed Int.	86.25	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15	86.15
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Ordinary	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8	3585.8
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Gold Mines	436.8	431.6	436.8	436.8	436.8	436.8	436.8	436.8	436.8	436.8
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Govt. Secs.	86.20	78.00	137.
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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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**Continued on Page 41**



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# FINANCIAL TIMES

## WORLD STOCK MARKETS

### KEY MARKET MONITORS



STOCK MARKET INDICES	June 18	Previous	Year ago
NEW YORK			
DJ Industrials	1,302.38	1,298.39	1,108.55
DJ Transport	640.57	639.86	488.45
DJ Utilities	164.91	164.55	123.36
S&P Composite	187.17	186.53	151.73

LONDON	June 18	Previous	Year ago
FT-100	985.8	988.3	832.2
FT-All-Share	1,284.0	1,284.4	1,042.6
FT-A 500	621.21	620.53	494.54
FT-A 100	678.30	678.59	539.91
FT Gold mines	438.8	431.6	668.0
FT-A Long gdt	10.56	10.59	10.76

TOKYO	June 18	Previous	Year ago
Nikkei-Dow	12,741.1	12,769.2	10,082.5
Tokyo SE	1,011.50	1,012.10	775.17

AUSTRALIA	June 18	Previous	Year ago
All Ord.	840.2	841.5	645.3
Metals & Mins.	465.3	498.5	422.7

AUSTRIA	June 18	Previous	Year ago
Credit Aktien	105.09	105.73	54.33

BELGIUM	June 18	Previous	Year ago
Belgian SE	2,326.35	2,327.26	—

CANADA	June 18	Previous	Year ago
Toronto	1,890.8	1,888.9	1,923.0
Metals & Mins.	2,717.8	2,712.7	2,225.8
Montreal	133.30	133.00	108.09

DENMARK	June 18	Previous	Year ago
SE	182.65	191.59	182.13

FRANCE	June 18	Previous	Year ago
CAC Gen	223.2	224.9	164.8
Ind. Tendance	125.1	125.7	85.7

WEST GERMANY	June 18	Previous	Year ago
FAZ-Aktien	470.02	463.25	338.24
Commerzbank	1,390.5	1,365.8	979.9

HONG KONG	June 18	Previous	Year ago
Hong Kong	1,427.08	1,441.94	932.37

ITALY	June 18	Previous	Year ago
Banca Comit.	334.20	332.83	197.96

NETHERLANDS	June 18	Previous	Year ago
ANP-CBS Gen	209.8	209.7	146.7
ANP-CBS Ind	175.0	174.2	116.7

NORWAY	June 18	Previous	Year ago
Oslo SE	326.23	330.04	246.05

SINGAPORE	June 18	Previous	Year ago
Straits Times	781.92	778.05	920.63

SOUTH AFRICA	June 18	Previous	Year ago
JSE Golds	—	985.7	961.5
JSE Industrials	—	968.0	959.5

SPAIN	June 18	Previous	Year ago
Madrid SE	106.53	107.27	86.77

SWEDEN	June 18	Previous	Year ago
J & P	1,319.80	1,321.45	1,422.02

SWITZERLAND	June 18	Previous	Year ago
Swiss Bank Ind	434.1	434.2	355.4

WORLD	June 18	Previous	Year ago
Capital Int'l	210.8	210.8	172.7

COMMODITIES	June 18	Previous	Year ago
(London)			
Silver (spot fixing)	489.05p	487.45p	—
Copper (cash)	£1,129.50	£1,127.50	—
Coffee (July)	£2,023.50	£2,062.00	—
Oil (spot Arabian light)	\$26.75	\$26.80	—

GOLD (per ounce)	June 18	Previous	Year ago
(London)			
Zürich	\$324.75	\$319.25	—
Paris (fixing)	\$319.50	\$315.67	—
London	\$319.25	\$317.50	—
New York (Aug)	\$330.50	\$321.80	—

### WALL STREET

## Muted reply to cuts in prime rates

HOPES of an early reduction in the Federal Reserve discount rate blossomed on Wall Street yesterday although the response from stock and bond markets was restrained, writes Terry Byland in New York.

The cut in the prime rate from 10 to 9½ per cent by several major banks offered confidence; however, investors waited for the Fed to confirm the trend to lower rates.

Optimism held firm despite the action of the Fed to drain reserves by overnight matched sales of Treasury securities after federal funds fell to 6½ per cent.

At 3pm the Dow Jones industrial average was up 4.14 at 1,302.38.

The stock market opened firmly and quickly broke through the Dow 1,300 mark, showing a gain of more than 8 in the first half hour of trading. Turnover was light.

Banking stocks edged forward as the big money centre banks followed Morgan Guaranty and Bankers' Trust in moving to lower prime rates, although this will trim lending margins. The major bank stocks were unperturbed by federal fines imposed on several major names for failing during recent years to disclose large cash transactions.

A federal funds rate below 7 per cent seemed to guarantee a cut in the federal discount rate from its present level of 7½ per cent. The Fed's intervention was regarded as a temporary gesture, intended to slow down the fall in the funds rate. But the market refused to be impressed, and federal funds dipped again to 6½ per cent, after the Fed's announcement of matched sales. Bond prices extended early gains to a quarter of a point.

The bank prime cuts brought gains for some capital investment stocks, such as heavy engineering, chemical and machine tool issues. But technology stocks made little recovery from their recent weakness, and auto stocks were lower. Falling world oil prices continued to undermine the leading oil stocks.

Among the blue chips, Exxon added ½ to \$52½, but IBM fell ½ to \$119½ in heavy trading. Digital Equipment, second to IBM in data processing, slumped 2½ to \$89½. At \$72½, General Motors shed ½, and Ford, at \$45½, was ¾ off. Chrysler, at \$35½, was ¾ down, with the acquisition of Gulfstream Aerospace due to be signed today.

Barrington remained unchanged on the day at \$58½ as Wall Street consoled to oblivion the aborted merger with Sperry. Sperry, still looking for a partner after the failure of two rounds of negotiation, gained ¾ to \$52 in heavy trading as arbitrageurs built up their bid stakes. A \$36½ write-off left B.F. Goodrich down 1¼ to \$43½.

Standard Oil of Ohio, controlled by British Petroleum, edged up by ¾ to \$46½ after saying it would challenge proposed rates on trans-Alaska pipeline shipments.

Chemicals featured Monsanto, ¾ higher at \$46½, and Dow Chemical, ¾ higher at \$33½. In industrials, General Electric gained ¾ to \$80, Resnord ¾ to \$14, and Colt Industries ¾ to \$61½.

Airline stocks were generally firmer on the prospect of cost reductions through lower oil prices. American Air added ¾ to \$44½ and Delta ¾ to \$47½. But United tumbled ½ to \$52½ after agreeing to pay \$587.5m — a substantial part of the cash recaptured last week from the overfunded pension scheme — for Hertz Car Rentals. Stock in RCA, which has been trying to sell Hertz for three years, jumped 1¼ to \$45½ on the news.

The board of Kaiser Aluminum Chemical knew of no reason for the jump in the stock of ¾ to \$13½ in brisk trading. The weakening in the U.S. dollar brought support for drug stocks, which depend heavily on export sales.

The retail sector was brightened on

hopes that lower bank primes would stimulate consumer spending.

In the money markets, rates continued to fall as traders anticipated a cut in discount rate. Treasury bills lost about four basis points and certificate of deposit rates dropped by as much as 15 basis points.

The bond market was held in check by expectations that the Treasury would announce before the end of the session a \$16bn funding package for the next quarter. But yields on long dated bonds dropped to about 10½ per cent, the lowest in this cycle.

● The Wall Street report stated incorrectly on June 12 that North American Philips had predicted a loss for the quarter and full year. The electronics group in fact forecast "modestly lower" earnings for the year and "significantly" lower earnings for the second quarter.

### LONDON

GILT-EDGED securities were the highlight in a London still starved of cash.

Most leading stocks were content to consolidate around their overnight prices as investors held off in front of tomorrow's debut of Abbey Life.

The generally subdued trading conditions were in part attributed to Wall Street's negative performance on Monday, and the session was only relieved by a flurry of bid speculation.

The FT Ordinary share index eased 2.5 to 985.80.

The partly-paid Treasury 10 per cent 2004 edged up to 39½, longer-dated gilts achieved gains of about ¼ but shorts improved only marginally.

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### AUSTRALIA

BOTH foreign and domestic buyers showed little interest in Sydney yesterday, and prices turned easier in dull trading.

Further speculation that CSR had sold its interest in Delhi Petroleum to Shell Australia and BHP sent it 11 cents higher to A\$27.50. BHP, however, lost 2 cents to A\$6.06.

Castlemaine Toohey continued easier, dropping 8 cents to A\$5.72 as Bond Corp confirmed it had been the mystery buyer of 9.9 per cent of the brewer's shares.

In a quiet mining sector, Western Mining shed 5 cents to A\$3.70, and MIM was 4 cents lower at A\$2.71, while North Broken Hill and Bougainville added 2 cents each to A\$2.24 and A\$2.00, respectively.

### SINGAPORE

TECHNICAL factors in Singapore left shares modestly higher for the first time in six sessions. The Straits Times index gained 3.87 to 781.92.

Malaysia's central bank called for lower interest rates to stimulate the economy but was not concerned about the low morale among the banking fraternity.

Despite continued reverberations from the collapse of Hong Kong's OTB, banks ended higher, with Malayan Bank, OCBC and DBS adding 5 cents each to S\$5.70, S\$9.05 and S\$8.85, respectively.

### HONG KONG

A HESITANT note was adopted in Hong Kong as the market opened after Monday's holiday, and this mood persisted throughout the day to leave prices depressed.

Monday's news that the Hongkong Bank and Bank of China had agreed to provide funds for the Ka Wah Bank did not assuage all of the nervous sentiment in the banking sector. Hang Seng lost HK\$1.75 to HK\$42.50, but Hongkong Bank, which on Friday lost 15 cents, ended steady at HK\$7.30, and Bank of East Asia added 20 cents to HK\$22.20.

### CANADA

STRENGTH on Wall Street and in U.S. credit markets pushed Toronto higher during the session.

A firmer bullion price attracted buyers to golds. Little Long Lac added C\$1½ to C\$61½, Placer rose C\$½ to C\$84½ but Camecor continued lower to C\$5½, down C\$½.

Gains were seen across the board in Montreal.

### EUROPE

## Peak levels confirm confidence

SPRITED foreign buying dominated a record-breaking session in Frankfurt yesterday as bullish international and domestic factors combined to rekindle confidence.

The interruption caused by Monday's holiday gave the buying increased potency and aided the Commerzbank index's fourth record for the month.

The index added 24.7 from Friday's level to close at 1,390.50, placing it 2.2 above the previous high set on June 12.

Expectations of falling U.S. interest rates and increasingly optimistic forecasts on the outlook for the West German corporate sector gave the signal to buyers who entered forcefully from the start of business and held command throughout the session.

An upwardly revised profit forecast by Volkswagen pushed it to the fore of market attention, and it finished DM 27.20 higher at DM 312.50.

Other automotive stocks carried forward included Porsche, up DM 29 to DM 1,289.00, BMW DM 9 to DM 425.50 and Daimler-Benz DM 8.50 to DM 825.50.

Insurers Allianz returned to favour, closing DM 25 higher at DM 1,490, while utilities Verba rose DM 3.50 to DM 206 and RWE DM 9.80 to DM 181.

Banks bounded ahead, with Deutsche rising DM 14 to DM 555.50, Commerzbank DM 7 to DM 204.50, Bayer Hypo DM 7 to DM 342.00 and Dresdner Bank DM 7.90 to DM 229.20.

U.S. interest rate hopes also sparked demand on the bond market. The Bundesbank sold a relatively large DM 140.3m of domestic paper on the Frankfurt bourse compared with sales of DM 67.3m on Friday.

Trading in other European stockmarkets was restrained by caution as investors ignored U.S. interest rate trends and concentrated on domestic economic factors.

Paris was depressed by news of a fall in industrial production during April and details of the country's May trade deficit. Price falls were marginal. However, losses held a clear advantage over gains at the end of the session.

Peugeot was one of the leading losers, finishing FFr 7 down at FFr 401 while Michelin managed a FFr 1 rise to FFr 1,011.

Printemps was sold during a generally weaker session for retailers. It lost FFr 6 of the recent advance to end at FFr 277 while Galeries Lafayette struggled to close steady at FFr 575.

Consolidation remained the overriding influence on trading in Zurich, while the underlying tone remained positive.

Volume was moderate, bolstered by profit-taking among stocks which have been most keenly sought during recent weeks.

The machinery sector was clipped back as it entered a correction phase. Fischer moved against the trend to add a further SwFr 8 to SwFr 890.

Banks closed steady to marginally higher which was sufficient to push the sector's index to a previous record level of 722.4 following a 2.1 rise.

Advances outnumbered declines in Amsterdam, but the overall improvement was modest.

Banks were at the top of buying orders. ABN added Ff 4 to Ff 480, while NMB was Ff 2.50 higher at Ff 195, while Amro edged up 40 cents to Ff 80.10 after a Ff 1 rise at the start of trading. FGH dropped 10 cents to Ff 56.20 in otherwise unchanged mortgage banks.

Royal Dutch/Shell recovered ground to close Ff 2.10 higher at Ff 193.60, while other international firms were mixed. Philips eased 40 cents to Ff 50.60, and Unilever was unchanged at Ff 344.

Traders in Brussels tended to ignore bullish indications on local interest rates and traded delicately.

Solvey ran into a heavy round of selling to erode much of its steady improve-

ment and closed BFr 210 lower at BFr 4,400. Other chemical stocks were also easier.

The tempo of activity in Milan remained high, although price movements were mixed.

Fiat firmed L64 to L3,555 while Pirelli added L10 to L2,680.

Light trading persisted in Madrid, and most sectors posted small declines.

Stockholm continued quiet as the Veckans Affärer all-share index dipped to another low for the year with a 1.7 drop to 451.4.

### TOKYO

## Blue chips spearhead downturn

SELECTIVE buying of large-capital issues persisted in Tokyo yesterday, but declines in blue chips and biotechnology issues took the Nikkei-Dow market average lower for the first time in three sessions, writes Shigeo Nishizaki of Jiji Press.

The index shed 28.17 to 12,741.11. Volume swelled from 680.73m shares to 831.91m as trading focused on large-capital stocks. Declines outpaced advances 481 to 307, with 152 issues unchanged.

Investors continued buying large-capital stocks believing that lower U.S. interest rates would lead to another official discount rate cut, which in turn would push down domestic interest rates.

Mitsubishi Heavy Industries climbed to Y340 at one stage, surpassing the Y333 peak reached in 1981, and closed at Y336, up Y4, with the largest trading volume of 68.90m shares. Kawasaki Heavy Industries gained Y5 to Y194 and Ishikawajima-Harima Heavy Industries Y3 to Y170.

However, Nippon Steel, second with 53.29m shares, dropped Y3 to Y168, and Kawasaki Steel Y1 to Y156.

Nippon Yusen (NYK Line) advanced Y9 to Y320 with the third busiest turnover of 35.33m shares on investor confidence in the government's deregulation plans of the shipping industry and the company's heavy off-the-book assets. Taiyo Fishery added Y8 to Y296.

Tokyo Gas, sixth largest with 21.99m shares, gained Y6 to Y243 after reports of the U.S. dollar's fall below Y248. Electric powers also gained ground, with Kansai Electric Power rising Y10 to Y1,950. Tokyo Electric Power remained unchanged at Y2,160.

Blue chips remained out of favour. Matsushita Electric Industrial was down Y20 to Y1,400, Sony Y20 to Y3,950, and Nippon Kogaku Y50 to Y1,150. By contrast, Hitachi gained Y8 to Y718, and NEC Y10 to Y1,050.

Biotechnology-related stocks were weak. Daiinippon Pharmaceutical shed Y100 to Y3,560 and Green Cross Y70 to Y2,320.

Bonds moved widely. The overnight strength of U.S. long-term bonds sparked buying by institutional investors in early trading, but the market weakened later on profit-taking.

The yield on the benchmark 7.3 per cent government bond due in December 1993 moved up from 6.445 per cent to 6.450 per cent, while the yield on the unlisted 6.8 per cent government bond due in December 1994 fell from 6.505 per cent to 6.495 per cent.

### SOUTH AFRICA

IMPROVED demand in golds shares, following a firmer bullion price, took Johannesburg higher.

Those to gain most included St Helena, up R2.50 at R37, Buffels, R1.50 higher at R15.75 and Beatrix ahead 35 cents at R8.95.

Other issues followed the upward trend. In mining financials, Anglo American Corp rose 25 cents to R29.25 and Gold Fields of South Africa added R1.50 to R33.

Diamond share De Beers put on 25 cents to R10.55 while among other mining stocks, Rustenburg Platinum added 15 cents to R15.85. Industrials were mixed to higher.

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